GAO ANALYSIS OF THE 1981 AFDC REDUCTIONS

HEARING

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

MAY 2, 1984

Serial 98–101

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE
40-186 O WASHINGTON : 1985

H781-22

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J.J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY H. (PETE) STARK, California
JAMES R. JONES, Oklahoma
ANDY JACOBS, Jr., Indiana
HAROLD FORD, Tennessee
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
CECIL (CEC) HEFTEL, Hawaii
WYCHE FOWLER, Jr., Georgia
FRANK J. GUARINI, New Jersey
JAMES M. SHANNON, Massachusetts
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
KENT HANCE, Texas
ROBERT T. MATSUI, California
BERYL ANTHONY, Jr., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut

BARBER B. CONABLE, Jr., New York
JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
JAMES G. MARTIN, North Carolina
RICHARD T. SCHULZE, Pennsylvania
BILL GRADISON, Ohio
W. HENSON MOORE, Louisiana
CARROLL A. CAMPBELL, Jr., South Carolina
WILLIAM M. THOMAS, California

John J. Salmon, *Chief Counsel*
Joseph K. Dowley, *Assistant Chief Counsel*
Robert J. Leonard, *Chief Tax Counsel*
A.L. Singleton, *Minority Chief of Staff*

Subcommittee on Public Assistance and Unemployment Compensation

HAROLD FORD, Tennessee, *Chairman*

FORTNEY H. (PETE) STARK, California
DON J. PEASE, Ohio
KENT HANCE, Texas
ROBERT T. MATSUI, California
WYCHE FOWLER, Jr., Georgia
BARBARA B. KENNELLY, Connecticut

CARROLL A. CAMPBELL, Jr., South Carolina
W. HENSON MOORE, Louisiana
BILL FRENZEL, Minnesota
WILLIAM M. THOMAS, California

Allen C. Jensen, *Professional Staff*
Francis M. Canavan, *Professional Staff*
Deborah G. Colton, *Professional Staff*

CONTENTS

Page
Press release of Tuesday, April 24, 1984, announcing the hearing 1

WITNESSES

U.S. General Accounting Office, Eleanor Chelimsky, Director, Program Evaluation and Methodology Division; Terry Hedrick, Group Director for Health and Welfare Issues; Stephanie Shipman, Project Manager; and Roger Straw, Social Science Analyst 4
Department of Health and Human Services, Anthony J. Pellechio, Deputy Assistant Secretary for Income Security Policy, Office of the Assistant Secretary for Planning and Evaluation 37

Moscovice, Ira, Center for Health Services Research, University of Minnesota. 68
Nakashian, Mary R., Department of Income Maintenance, State of Connecticut 87
Parham, T.M. Jim, School of Social Work, University of Georgia 76

GAO ANALYSIS OF THE 1981 AFDC REDUCTIONS

WEDNESDAY, MAY 2, 1984

HOUSE OF REPRESENTATIVES, COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION,

Washington, DC.

The subcommittee met at 10:10 a.m., pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[Press release No. 12, Tuesday, Apr. 24, 1984]

THE HONORABLE HAROLD FORD (D., TENN.), CHAIRMAN, SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A PUBLIC HEARING TO BE HELD MAY 2, 1984, IN WASHINGTON, DC, ON THE GAO ANALYSIS OF THE 1981 AFDC CUTS

The Honorable Harold Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives, today announced a public hearing on the results of the General Accounting Office (GAO) study of the impact of the 1981 Aid to Families with Dependent Children (AFDC) program cuts. The hearing will be held on Wednesday, May 2, 1984, in Room B-318, Rayburn House Office Building, in Washington, D.C., and will begin at 10:00 a.m.

In announcing the hearing, Chairman Ford said, "The General Accounting Office has only recently completed its initial analysis of the effect of the 1981 AFDC reductions. It is essential that the Subcommittee take this opportunity to learn firsthand the results of this analysis."

In addition to GAO representatives, invited witnesses at the hearing will include representatives of the Department of Health and Human Services, State welfare officials and others who have closely monitored the AFDC changes. The hearing will review the results of the GAO evaluation and highlight the implications of this research for public policy.

GAO has estimated that the AFDC amendments in the Omnibus Budget Reconciliation Act of 1981 decreased the national AFDC caseload by 493,000 families. Most of these families have continued to work and have not returned to AFDC, despite a significant income loss; many are without health coverage. The GAO study was requested by the Chairman of the Committee on Ways and Means, the Honorable Dan Rostenkowski (D., Ill.), and the Ranking Republican Member of the Committee, the Honorable Barber B. Conable, Jr., (R., N.Y.). GAO conducted a national survey and an in-depth evaluation in five communities—Boston, Dallas, Memphis, Milwaukee, and Syracuse—to provide the most comprehensive picture to date of the actual impact (both aggregate and individual) of the 1981 AFDC changes.

Written comments for the record of the hearing:

For those who wish to file a written statement for the printed record of the hearing, six copies are required and may be submitted by the close of business, Wednesday, May 16, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, Room 1102 Longworth House Office Building, Washington, DC.

Chairman FORD. This hearing of the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means will come to order.

At today's hearings the subcommittee will receive testimony from invited witnesses regarding the recently completed General Accounting Office analysis on the impact of the 1981 AFDC budget cuts and other similar independent research.

In June of 1982, the Committee on Ways and Means asked the General Accounting Office to evaluate the effect of changes made in the Aid to Families with Dependent Children [AFDC] Program by the Omnibus Budget Reconciliation Act [OBRA] of 1981. The committee was particularly interested in learning about the impact of OBRA on national AFDC caseloads and expenditures, how it affected working AFDC families, and whether it altered earnings patterns, household composition, or the demographic characteristics of the AFDC caseload. In addition, the committee asked GAO to examine the economic well-being and the quality of life of families who lost AFDC as a result of the 1981 changes.

GAO has now released the initial results of the evaluation of these cuts. They are results that should concern us all. According to GAO, 493,000 families—including roughly 1 million children—have lost AFDC. These families have experienced a substantial loss of income, which they could not make up by increased earnings or other means. Lack of health coverage is common among these former AFDC recipients.

Across the country, many of these families are facing more problems than before the cuts of 1981. They run out of food more often, must borrow money more frequently, and face more emergencies. And, while most of these families have continued to work, their earnings have been eroded and their taxes have also increased.

The results are even more disturbing in light of the Census Bureau report on increasing poverty in this country. According to the Census Bureau, no matter how you measure it, the number of poor people in the United States is steadily rising. In 1978, 24.5 million people lived in poverty; in 1982, the number grew to 34.4 million. A shocking number of the families who lost AFDC eligibility after OBRA have joined the ranks of the poor.

We look forward today to hearing in greater detail the results of the GAO study and the manner in which it was conducted. In addition, we will be hearing from the Department of Health and Human Services and from researchers who have conducted similar studies in Georgia and Minnesota.

As legislators and administrators involved with public assistance programs, I believe that we have a responsibility to impartially examine the nature and extent of poverty in this country and the role of the Federal Government in addressing the problem of poverty. I hope that today's hearings will help us all in meeting that responsibility, in responding to the needs of the poor and understanding why the poor are suffering so much in this country.

As chairman of this Public Assistance Subcommittee, I would like to thank all of the members who will be participating in this session today, and hopefully we can move forward after today, in responding to the 34.4 million people who are living below the poverty level, and hopefully we will receive the information that will be needed today to move forward with progressive legislation that will respond to the needs of the poor in this country.

The chairman at this time would like to recognize and yield to the ranking minority member of the committee, Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

First, let me say that I appreciate you holding these hearings on the GAO study evaluating the impact of the 1981 changes regarding the Aid to Families with Dependent Children Program. They are essential. I am delighted to welcome Dr. Eleanor Chelimsky of the General Accounting Office, and Dr. Anthony Pellechio of the Department of Health and Human Services.

Considerable debate has taken place between the administration officials and welfare advocates concerning the impact of these 1981 changes on the welfare population. To take a step back, when the 1981 changes were voted upon, it was with an eye toward reforming the system, whose original intention was to give temporary assistance for individuals who were potentially employable.

Critics argued that reducing benefits for families who work would result in their quitting their jobs to retain their assistance. However, both the Triangle Research Institute study and the GAO study show that the changes provided the incentive needed to make the transition from welfare to self-support. Sometimes it was a rough transition, but it did provide the incentive.

I commend GAO for choosing sites that have substantial geographic, demographic, and programmatic diversity. Findings from both studies indicate something else, that labor force attachment or lack thereof or lack of a history thereof is an important factor affecting welfare dependency. The GAO study does show something that gives me a great deal of concern, though, and that is that families who left the welfare rolls but are in low-paying jobs may be having trouble finding reasonable health insurance, that is, with employers paying some or all of it.

For that reason I believe that we must have a transition period where these families remain Medicaid eligible. As you are aware, we have pending in conference, or will have in conference now, on the tax bill, legislation affecting that.

Again, let me welcome those who are testifying before us today. I look forward to the opportunity to discuss the implications of the GAO study, and the information base it gives us in developing social welfare policy.

I misspoke myself. I didn't mean to say the tax bill. I would put it on the tax bill, that would be all right, a good place for it, but we have passed legislation. The chairman and I are both concerned about this. We have a little difference in the way that we would go at it, but I think both of our goals have been to keep people from falling through the cracks when they make a transition from dependence on the welfare system to independence in the workplace. And we are concerned with that; even though our methods of reaching a conclusion of the problem may be different, I think both of us have the same goal.

Chairman FORD. Thank you very much, Mr. Campbell.

At this time the committee will recognize the Director of Evaluation from the General Accounting Office, Dr. Eleanor Chelimsky. The Chair would just like to say that we are very delighted to have you come before the subcommittee today. We look forward to your testimony, and to the responses to some of the questions that will be asked of you.

We do appreciate the fact that you could be with us today. You may proceed at this time.

STATEMENT OF ELEANOR CHELIMSKY, DIRECTOR, PROGRAM EVALUATION AND METHODOLOGY DIVISION, U.S. GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY TERRY HEDRICK, GROUP DIRECTOR FOR HEALTH AND WELFARE ISSUES; STEPHANIE SHIPMAN, PROJECT MANAGER; AND ROGER STRAW, SOCIAL SCIENCE ANALYST

Ms. CHELIMSKY. Thank you very much. Good morning, Mr. Chairman and members of the subcommittee. We are very pleased and honored to be here today ourselves. We will be reporting on the initial findings of the GAO evaluation of the changes made by OBRA to the AFDC Program. OBRA, of course, is the Omnibus Budget Reconciliation Act of 1981. We all know that the AFDC Program is Aid to Families with Dependent Children.

Let me begin by introducing the people who are here at the table with me. To my right is Terry Hedrick, Group Director; to my immediate left is Stephanie Shipman, Project Manager; and further left still is Roger Straw, Social Science Analyst, all of whom are at the Program Evaluation and Methodology Division of GAO that I direct. All, with many others, have worked hard on our evaluation.

In order to adhere to the subcommittee's time constraints, I would simply present highlights from the statement that you have and ask that the full statement be made a part of the record.

Chairman FORD. The full statement will be made a part of the record.

Ms. CHELIMSKY. The 1981 OBRA legislation, as we know, made substantial changes to the AFDC Program. These changes particularly regarded the treatment of income of working welfare recipients and included a gross income limit tied to each State's need standards and a 4-month limit on the earned income disregard. The purpose of these changes was twofold: to reduce program costs, and to create disincentives to long-term welfare dependency. But these OBRA changes in the AFDC Program were accompanied by some uncertainties.

First, what effects would OBRA have on national program caseloads and outlays? We didn't know. Second, how would OBRA's effects be distributed, as between earners and nonearners in the program? Third, what would OBRA's effects be on earner behavior? For example, would earners removed from the program by OBRA stay off the rolls or would they return to the rolls? Finally, for those earners who lost AFDC due to OBRA, what effects would this have on the economic well-being and general circumstances of their families?

In June of 1982, as you said a little bit earlier, the Committee on Ways and Means asked GAO to try to answer these and some other questions. The questions are detailed in our statement. I won't go into them now.

To obtain this information for the committee, we developed an evaluation design which had two major components: First, a national component, which included a survey of the States' implementation of the OBRA changes to AFDC, as well as an analysis of OBRA's effects on national AFDC caseloads and outlays. And second, a site specific, indepth component which consisted of five separate parallel evaluations of the effects of the OBRA changes on individual AFDC families in Boston, MA; Dallas, TX; Memphis, TN; Milwaukee, WI; and Syracuse, NY.

These sites are similar in that all had fairly stable unemployment rates. They are different in the ways they have structured the AFDC Program, and in their AFDC benefit levels. Three are high-benefit sites: Boston, Milwaukee, and Syracuse. There are two low-benefit sites, Dallas and Memphis.

Our five indepth evaluations involved reviewing approximately 12,000 case records of both working and nonworking AFDC families, in a base period before OBRA, during an OBRA period in which the AFDC changes were implemented, and after OBRA's implementation, three separate time periods in other words. We also conducted interviews in the fall of 1983, with a total of 668 persons across the five sites, who were working and receiving AFDC benefits before OBRA's implementation, but who lost eligibility for AFDC because of the changes OBRA made to the program.

I should perhaps also mention here that we had remarkably high response rates, ranging from 73 percent to 88 percent across the sites. We are very happy about that. It gives us more confidence in our results than we would have otherwise had.

Let me move now to our initial evaluation findings, and the first question we needed to answer: What were OBRA's effects on the AFDC Program's caseloads and outlays? Well, several months after the OBRA changes, the national AFDC caseload had decreased, and so had outlays compared to what they would have been without OBRA. We estimate that 493,000 fewer cases were open in an average month, and that is in the context of approximately 3.6 million cases active in the month prior to OBRA.

We estimate that outlays were $93 million less in an average month, and that is in the context of a monthly outlay exceeding $1 billion prior to OBRA. We also think it is possible that both of these effects may not be permanent, but may be eroding over time. However, more data are needed for a longer time period after OBRA's implementation to determine whether the effects are in fact lessening. We will be looking again at this question in the future.

So, based on information from the national component of our evaluation, we can say that the OBRA purpose of reducing program costs was accomplished, at least over the short term.

Turning now to information from our five indepth evaluations, we can address the second question, how were OBRA effects distributed among earners and nonearners in the AFDC Program? Here we have three findings:

First, the OBRA changes affected working AFDC recipients much more overall than they affected nonworking recipients. Large proportions of AFDC earner cases were either closed or had their AFDC grants reduced. Across the five localities, 39 to 60 percent of these earner cases were closed, and an additional 8 to 48 percent of the cases were reduced. Comparable figures for nonworking cases at the time of OBRA are only 1 to 12 percent closed and an additional 1 to 6 percent reduced, so there is a much bigger effect on the working cases than the nonworking cases.

Second, earners had substantial dollar losses. For closed cases, the average monthly AFDC dollar loss ranged from $71 to $74 in Dallas and Memphis, our low-benefit sites, and from $156 to $198 in Boston, Milwaukee, and Syracuse, our high-benefit sites.

For reduced cases, the average monthly AFDC dollar losses were $46 to $52 in Dallas and Memphis, $110 to $137 in Milwaukee and Syracuse. Data were not available for Boston on this finding.

Our third finding with regard to benefit changes was unexpected. We found that many earners who lost AFDC in the sites paying higher benefits reported when interviewed that they simultaneously lost food stamp benefits. This may be at least partially due to OBRA's also having tightened food stamp eligibility.

For example, in Syracuse, 79 percent of the closed cases containing earners reported that they had been receiving food stamps prior to OBRA with an average grant of $81, and 72 percent of these reported that they lost food stamps when they lost AFDC.

These three findings show some large losses in benefits for AFDC earners as a result of the OBRA legislation, losses which mirror the reduced caseloads and outlays for the national AFDC Program I discussed earlier.

This then leads us to our third question: What were OBRA's effects on earner behavior? We have two findings here. First, we found that across our five sites, most earners who lost AFDC benefits did not quit their jobs and return to AFDC.

Twelve months after OBRA's implementation, only 7 to 18 percent of these cases were back on the AFDC rolls. It is also true that most of those who did return were no longer working. If return rates are calculated for those who returned at any time in the year after OBRA, the rates are somewhat higher, at 11 to 30 percent across the five localities.

The second finding: In looking at patterns of AFDC use for both the base and OBRA periods, we noted that smaller proportions of our earner and nonearner cases in the OBRA period were working and receiving AFDC a year later than in the base period. To find out whether these smaller proportions were attributable to OBRA, rather than to changes in recipients' behavior, we applied OBRA eligibility rules to the base period cases, and we found that most of the previously observed differences in base period and OBRA period AFDC use and work patterns disappeared.

When we consider this analysis in conjunction with other analyses we performed, we conclude that there is scant evidence of behavioral effects on work effort and welfare use. In other words, OBRA eligibility provisions alone are sufficient to explain the changes observed.

Given, then, the reductions estimated in AFDC caseloads and outlays due to OBRA, given the large benefit losses sustained by AFDC earners in our five sites, and given that most of those earners did not return to AFDC as a result of those losses, we can now address the last question: What happened to the general circumstances and economic well-being of the families affected by OBRA?

Here we have three findings to report. First with regard to health insurance, we found that while families had been categorically eligible for Medicaid during the period they were receiving AFDC, few were receiving Medicaid or any other form of Government-subsidized health care at the time of the interview. Some families did have private insurance, but there were notable differences in this type of coverage across the sites.

In Dallas and Memphis, only about 25 percent of the respondents had private coverage for themselves or their children, while in Boston, Milwaukee, and Syracuse, the figures were 57 to 61 percent. Approximately 60 percent of the respondents in Dallas and Memphis had no coverage of any type for themselves, 63 percent in Dallas had no coverage for their children. And in Memphis, children in 50 percent of the families lacked any health insurance coverage whatever.

Our second finding, which concerns reports of hardship, is that more respondents in four sites, particularly in Milwaukee, reported experiencing various types of financial problems after OBRA than in the 2 years before. For example, they reported more frequently having to borrow $50 or more from friends or relatives after OBRA than in the past.

In three sites, they reported a higher incidence of having to get food from a charity, and of running out of food with no money to buy more. The three sites where respondents ran out of food more often were the same sites where the greatest percentages reported losing food stamp benefits when they lost AFDC benefits, that is, Boston, Milwaukee, and Syracuse.

Our findings on employment and earnings after OBRA are, first, that 77 to 88 percent of the respondents were employed when we interviewed them in Boston, Milwaukee, and Syracuse, but in Dallas and Memphis the figures were lower at 63 and 69 percent. Of those who were in the labor force at the time of the interview, 38 to 71 percent had increased their average monthly earnings, even after adjustment for inflation, but 11 to 32 percent reported decreases in earnings compared to their situation before OBRA. However, despite increased earnings for some respondents, all sites showed a similar pattern of loss when the total monthly income of the respondent was compared for the period before OBRA and the time of the interview.

The respondents' income from any earnings plus AFDC and food stamp grants was significantly lower, $115 to $229 a month lower, in constant dollars. So even though earnings increased for many who remained in the labor force, the respondents as a whole, including those no longer working, apparently did not make up the entire loss of income from AFDC and food stamps by working.

Our comparisons of the respondents' income before and after OBRA do not include the resources of household members other than the respondents, and there is some possibility that additional resources may have been available to them. However, at the time of the interview, the average reported monthly household income, which included the earned and unearned income of all household members, was lower than the OMB poverty level for 28 to 41 percent of the families in Boston, Milwaukee and Syracuse. In Dallas and Memphis, 75 to 86 percent of the families had incomes below the OMB poverty level.

In summary, then, our evalution found that the OBRA AFDC changes accomplished major reductions in the national AFDC caseloads and outlays. However, long-term effects are less certain. Across our five sites, OBRA affected working AFDC recipients much more than it did nonworking recipients. We also found that most working recipients in the five localities who lost AFDC due to OBRA did not quit their jobs and return to the AFDC rolls by the fall of 1983. Yet it is clear that these families experienced substantial and significant income losses on average, and many were found to be without either public or private health insurance.

I would like to point out that we haven't yet completed all our work on this evaluation. These are our initial findings. More analyses are underway with respect to different questions, so we expect to be able to add to these findings some months from now.

Mr. Chairman, that concludes my statement. We thank you for the opportunity to present our results here today and we would be happy to explain any part of our testimony or answer any questions the subcommittee may have.

[The prepared statement follows:]

STATEMENT OF ELEANOR CHELIMSKY, DIRECTOR, PROGRAM EVALUATION AND METHODOLOGY DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee, we are very pleased to be here today to discuss our initial findings from an evaluation of the Omnibus Budget Reconciliation Act of 1981 (OBRA) changes to the Aid to Families with Dependent Children (AFDC) program.

The AFDC program (Office of Family Assistance, U.S. Department of Health and Human Services) provides cash welfare payments to needy children (and their mothers or other caretaker relatives) without able-bodied fathers at home.[1] The 1981 OBRA legislation made substantial changes to the AFDC program, particularly regarding the treatment of income of working welfare recipients. These changes included a gross income limit tied to each State's need standard and a 4-month limit on the earned income disregard; they were aimed at reducing costs and creating disincentives to long-term welfare dependency.

On June 15, 1982, the Committee on Ways and Means asked the U.S. General Accounting Office (GAO) to:

Estimate how OBRA's changes to AFDC affected national caseloads and outlays;

Provide data on the percentages of AFDC earners (that is, working recipients) and nonearners affected by the various changes;

Determine what happened to earnings patterns and welfare use patterns among individuals who were removed from the AFDC rolls;

Provide data on demographic and income and other resource characteristics of AFDC families before and after the implementation of OBRA's changes to AFDC and provide information on how often AFDC recipients moved on and off the AFDC rolls;

Examine the effect of OBRA's changes to AFDC on the composition of AFDC households; and

Ascertain the economic well-being and general circumstances of the individuals and households who were removed from the AFDC rolls and, to a lesser extent, of those who received reduced benefits.

Our understanding is that this list of requests for information stemmed from three Congressional information needs. First, there was a general need to know what in fact occurred nationally with respect to AFDC caseloads and outlays as a result of the OBRA changes. Second, there was a more specific need to know whether the new limits on gross income for determining eligibility for AFDC and the changes in the treatment of earned income led to more or to less dependence on welfare. Concern had been expressed that OBRA's changes to AFDC and the associated loss of Medicaid for cases that closed might discourage AFDC recipients from working and lead them to increase their reliance on welfare. Third, there was need to know whether the economic well-being and general circumstances of families who lost eligibility for AFDC because of OBRA have been affected, regardless of any effects on their employment and use of welfare.

---

[1] GAO's evaluation of the OBRA AFDC changes is confined to the AFDC-basic program and does not include cases in the AFDC-UP program, a program existing in 23 states serving two-parent families whose principal wage earner is unemployed.

EVALUATION DESIGN

The design we selected has two major components: first, a national component, which includes a survey of the states' implementation of the OBRA changes to AFDC as well as an analysis of OBRA's effects on national AFDC caseloads and outlays; and second, a site-specific in-depth component, which consists of five separate evaluations of the effects of the OBRA changes on individual AFDC families in Boston, Massachusetts; Dallas, Texas; Memphis, Tennessee; Milwaukee, Wisconsin; and Syracuse, New York. These sites differ substantially in how they have structured the AFDC program and AFDC benefit levels. The in-depth evaluations involved reviewing large numbers (almost 12,00 overall) of case records of both working and non-working AFDC families in a "base period" before OBRA, in an "OBRA period" during which the AFDC changes were implemented, and in a period after OBRA's implementation. We also conducted interviews in the fall of 1983 with between 127 and 147 persons from the OBRA period sample in each site (668 in total) who were working and receiving AFDC benefits before OBRA's implementation but who lost eligibility for AFDC because of the changes OBRA made to the program. Our response rates were high, ranging from 73 percent to 88 percent across the sites.

INITIAL FINDINGS

Our recent report (GAO/PEMD-8-6) persents in detail the findings from our initial analyses.[2] With your permission, Mr. Chairman, in response to your time constraints today, let me summarize only the main points of our report.

To obtain a comprehensive picture of the effects of OBRA's changes to AFDC, it is necessary to consider findings from both the national and indepth components of the study. Here, we first present the results from the national component and then summarize the highlights of our in-depth evaluations in the five localities. In this way, we can examine OBRA's effects on AFDC caseloads and outlays, provide information on the rate at which cases cut from the AFDC rolls by the 1981 changes returned to AFDC, and review changes in the economic well-being and general circumstances of working families terminated because of OBRA.

National component

Several months after the OBRA changes to AFDC, national AFDC caseloads had decreased and so had outlays, compared to what they would have been without OBRA:

We estimate that 493,000 fewer cases were open in an average month. This is in the context of approximately 3.6 million case active in the month prior to OBRA.

We estimate that outlays were $93 million less in an average month. This is in the context of a monthly outlay exceeding $1 billion prior to OBRA.

There is some indication that both of these effects are not permanent but eroding over time. More data are needed for a longer time period after OBRA's implementation to determine whether the effects are lessening. We plan to examine this question in the future.

The site-specific indepth evaluations

We analyzed the data from each of the five sites separately, so that we could identify any patterns they share. Differences between the sites may reflect state program variations, such as need standards and payment levels. For example, Boston, Milwaukee, and Syracuse pay relatively high AFDC benefits while in comparison Dallas and Memphis pay low AFDC benefits.

---

[2] GAO. *An Evaluation of the 1981 AFDC Changes: Initial Analyses,* PEMD-84-6. Washington, D.C.: April 2, 1984.

Overall, the OBRA changes affected working AFDC recipients much more than they affected non-working recipients. Large proportions of AFDC earner cases (that is, cases that included workers) were either closed or had their AFDC grants reduced: across the five localities 39-60 percent of the cases were closed and an additional 8-48 percent of the cases were given reduced grants. The comparable figures for non-working cases at the time of OBRA are 1-12 percent closed and an additional 1-6 percent reduced. Because earners make up only a small proportion of the entire AFDC caseload, OBRA's overall effect on the total caseload for our five sites in only 7-14 percent for closed cases and 1-11 percent for reduced cases.

The average monthly AFDC dollar losses for closed earner cases were substantial: $71 to $74 in Dallas and Memphis and $156 to $198 in Boston, Milwaukee, and Syracuse. For reduced cases, the average monthly AFDC dollar losses were $46 to $52 in Dallas and Memphis and $110 to $137 in Milwaukee and Syracuse. (Data were not available for Boston.)

OBRA also tightened eligibility rules for the food stamp program, and many earners who lost AFDC in the sites paying higher benefits reported when interviewed that they simultaneously lost food stamp benefits. For example, in Syracuse 79 percent of the closed cases containing earners reported that they had been receiving food stamps prior to OBRA, with an average grant of $81, and 72 percent of these reported that they lost food stamps when they lost AFDC.

These findings clearly show large losses for AFDC earners as a result of the OBRA legislation. Three questions then arise: (1) Did working recipients who lost AFDC due to OBRA quit their jobs and return to the rolls? (2) Did AFDC recipients overall show different work effort and wefare use patterns as a result of OBRA, than they did in the past? (3) What happened to the general circumstances and economic well-being of the working families affected?

First, what were the rates of return to AFDC?

In general, most earners who lost AFDC benefits did not quit their jobs and return to AFDC. Twelve months after OBRA's implementation, only 7-18 percent of these cases were back on the AFDC rolls in our five localities. It is also true that most of those who returned were no longer working. If return rates are calculated for those who returned at any time in the year after OBRA, the rates are somewhat higher, at 11-30 percent across the five localities.

Second, what did we learn about work effort and welfare use patterns?

In looking at patterns of AFDC use for both the base and OBRA periods, we noted that smaller proportions of our earner and nonearner cases in the OBRA period were working and receiving AFDC a year later than in the base period. To find out whether these smaller proportions were attributable to the OBRA AFDC eligibility changes or rather to changes in recipients' behavior, we subjected the base-period cases to OBRA eligibility rules. We found that most of the previously observed differences in base-period and OBRA-period AFDC use and work patterns disappeared. This analysis was, of course, limited to the work behavior of active AFDC cases. However, when it is considered with other analyses performed on case record and interview data, we find scant evidence of behavioral effects on work effort and welfare use. Thus the differences observed in work effort and AFDC use patterns can be largely accounted for by the OBRA eligibility changes.

Finally, what information was developed about the economic well-being of working families who lost AFDC due to OBRA?

While families had been categorically eligible for Medicaid during the period they were receiving AFDC, we found that few were receiving Medicaid or any other form of government-subsidized health care at the time of the interview.

Some families had private insurance but differences in this type of health coverage were pronounced across sites: in Dallas and Memphis, only about 25 percent of the respondents had private coverage for themselves or their children, while in Boston, Milwaukee, and Syracuse the figures were 57-61 percent.

Approximately 60 percent of the respondents in Dallas and Memphis had no coverage of any type for themselves; 63 percent in Dallas had no coverage for their children. In Memphis, children in 50 percent of the families lacked any health insurance coverage.

The respondents in four sites, particularly in Milwaukee, reported experiencing various types of hardships more often after OBRA than in the 2 years before. For example, they reported more frequently having to borrow $50 or more from friends or relatives after OBRA than in the past. In three sites, they reported a higher incidence of having to get food from a charity and of running out of food with no money to buy more. The three sites where respondents ran out of food more often were the sites where the greatest percentages reported losing food stamp benefits when they lost AFDC benefits—Boston, Milwaukee, and Syracuse.

As for employment, 77-88 percent of the respondents were employed when we interviewed them in Boston, Milwaukee, and Syracuse, but in Dallas and Memphis the figures were lower, at 63 and 69 percent. Of those who were in the labor force at the time of the interview, many had increased their average monthly earnings (even after an adjustment for inflation), but 11-32 percent reported decreases in earnings, compared to their situation before OBRA.

All sites show a similar pattern of loss when the monthly income of the respondent is compared for the period before the loss of AFDC and the time of the interview. The respondents' income from any earnings and AFDC and food stamp grants was significantly lower—$115 to $229 a month less, in constant dollars. Thus, even though earnings increased for many who remained in the labor force, the respondents as a whole (including those no longer working) apparently did not make up the entire loss of income from AFDC and food stamps by working.

Our comparisons of the respondents' income before and after OBRA do not include the resources of household members other than the respondents, and there is some possibility that additional resources may have been available to them. However, at the time of the interview, the average reported monthly household income (which included the earned and unearned income of all household members) was lower than the OMB poverty level for 28-41 percent of the families in Boston, Milwaukee, and Syracuse; in Dallas and Memphis, it was lower for 75-86 percent.

SUMMARY OF THE GAO FINDINGS

In summary, the OBRA AFDC changes accomplished major reductions in national AFDC caseloads and outlays. However, long-term effects are less certain. In addition, we found that most working recipients in five localities who lost AFDC due to OBRA did not quit their jobs and return to the AFDC rolls by the Fall of 1983. On the other hand, these families experienced substantial and significant income losses on average and many were found to be without either public or private health insurance.

Mr. Chairman, this concludes my statement. We thank you for the opportunity to present our results here today and would be happy to explain any part of our testimony or answer any questions the subcommittee might have.

Chairman FORD. The committee would like to thank you very much, Dr. Chelimsky, for testifying before the committee. We would be delighted if you would respond to some questions from the members of the committee at this time. The Chair will have a few questions for you at this time. In going over your statement last evening, and hearing the testimony today, your study was primarily conducted in five localities, Dallas, Memphis, Milwaukee, and Syracuse.

Are you confident that the results generally reflect the Nation as a whole, when the study was only conducted in five major cities throughout the country? Will this reflect all cities and all States throughout this Nation? Are you confident that this will do that?

Ms. CHELIMSKY. I think that all evaluations involve a tradeoff of some sort. There is a tradeoff of time always, how quickly do we have to get this done? There are tradeoffs of cost, how much can we afford to spend on it? There is also a question of what sort of program you are dealing with, and what kinds of questions are most important to you, and those kinds of things. Those four factors, really, usually determine the design that one decides to adopt.

Now, all designs are going to have problems of one sort or another. If you want indepth information about what is happening to families, which is one of the major questions that we had to address here, you can't get that with a national survey very easily. It would also be incredibly expensive to do that.

So what we did was opt for a two-pronged design, one with a national component, as I mentioned, which gave us a strong idea of what was happening to the program as a whole in terms of caseloads and outlays, and a five-site component, which would give us a sense of what was happening to individual families, and I think we have brought new information that was not available before, detailed, systematic, carefully developed information about that.

So the study is not generalizable to the Nation as a whole with respect to the site component, because we have only five sites, three of them high benefit, two of them low benefit. But the fact that the findings are similar across the five sites, and that they reflect, for example, the decreases in caseloads, that we found at the national level, increases our confidence in the soundness of our findings overall.

Chairman FORD. How were they selected, the three high sites and the two low sites? How were they selected?

Ms. CHELIMSKY. We looked at several factors in thinking about how we would select the sites. We looked at the differences in programs. You have, you know, really 50 programs in the AFDC Program. It is not one program; the States have all implemented it differently.

We also looked at the implementation of OBRA itself because we wanted to have, to the degree possible, States that had implemented the OBRA changes without having changed other things as well, so we would be able to attribute to the OBRA changes what in fact we observed. We looked at high benefits and low benefits, as I mentioned.

Terry, why don't you continue?

Ms. HEDRICK. We wanted a range of places so that we could see what OBRA's effects were in both high and low AFDC benefit localities. We looked for clean OBRA implementation where there was not a court suit, where people were taken off the rolls, put back on, and off again.

We looked for places that did not have dramatic increases in unemployment over the period, so that that would be less of a competing explanation for our results. And also places that didn't raise need standards immediately after OBRA went into effect.

Chairman FORD. Basically, how much time was put in on each one of the sites, the total number of hours that were spent conducting the study?

Ms. HEDRICK. Months.

Ms. CHELIMSKY. A long time. We will give you an exact answer to that if you would like. We would have to go back and check our records.

Chairman FORD. What was the total cost of the study?

Ms. CHELIMSKY. At the present time it is about $1.5 million.

Chairman FORD. Although many working families in several sites were able to increase their earnings after losing the AFDC, they also lost total income as a result of the changes that were made with the 1981 budget cuts. What was the average monthly income loss in each site?

Ms. HEDRICK. In Boston the difference was $115; in Dallas $229, Memphis $186, Milwaukee $180, Syracuse $151. That is comparing respondent income, earnings plus AFDC plus food stamps from the time of the interview to the month before they lost AFDC.

Chairman FORD. What happened in the fall of 1983? You mentioned in your testimony earlier that you went back in the fall of 1983, I think interviewing some 800 additional; is that correct?

Ms. CHELIMSKY. I think that is different.

Chairman FORD. Is that different?

Ms. CHELIMSKY. There is the case record effort that we did, and then there is the interview component. But we only interviewed people once.

Why don't you speak to that?

Ms. HEDRICK. OK.

The fall of 1983 is when we conducted the interviews, and the interviews were done with people who were working and on AFDC prior to OBRA, but lost AFDC specifically due to OBRA, so the comparisons of our income data are between——

Chairman FORD. The study was started when?

Ms. CHELIMSKY. In June 1982, right after we got the letter from Ways and Means.

I think you have hit on an important point, Mr. Chairman. There are two components of this study, and it is difficult to compare across them in some cases. One set of information comes from case records that we looked at at three points in time. Another set of information comes from interviews with people who had been on AFDC and whose cases had been terminated. So that basically we have different information that comes from those two components.

We did look across both components to try to develop the findings. But some comparisons probably can't be made between the two.

Chairman FORD. For those families who lost the AFDC eligibility due to the budget cuts of 1982, to what extent were Medicaid benefits available to them after leaving AFDC? We have heard a lot of talk about many of those who entered into the work force, were still able to maintain their Medicaid benefits, and I would just like to hear from the study itself and the impact of it.

Ms. HEDRICK. With regard to Medicaid benefits, at the time of the interview in the fall of 1983, 13 to 31 percent of the families indicated they had Medicaid coverage for themselves or their children, or both. So it is much lower than previously when all had been categorically eligible for Medicaid.

Chairman FORD. How much? What percentage, again?

Ms. HEDRICK. Thirteen to thirty-one percent across the five localities.

Chairman FORD. Does your study reflect the degree to which families who lost AFDC had health coverage; I mean, those who stayed in the work force? What percentage of those who stayed in maintained some kind of health benefits?

I notice you talked about Memphis. I think 50 percent of those——

Ms. CHELIMSKY. Didn't.

Chairman FORD [continuing]. Did not have benefits?

Ms. CHELIMSKY. Right.

Chairman FORD. Would that reflect all low paying States like Tennessee?

Ms. CHELIMSKY. It is very hard to say to what degree we could generalize the study. I think the important thing to remember is that we can look at the patterns across these five sites. But it becomes dangerous to generalize strongly either to low-benefit or to high-benefit sites.

Ms. HEDRICK. Let me give you the differences. There is a difference in pattern across our high- and low-benefit sites, in that there is a higher rate of coverage through private insurance in the three high-benefit sites than the two low-benefit sites. A little over half of the people we interviewed in the high-benefit sites have private insurance coverage; and it is around a quarter in the low-benefit sites.

Then when you look at families without coverage, it is in the low-benefit sites where you have the greatest amount, the greatest number of families indicating no coverage either for themselves or for their children.

Chairman FORD. Did you find that most of the AFDC mothers we are talking about, employed or working on jobs, that they were making minimum wages or slightly above minimum wages?

Ms. HEDRICK. One of the things we are going to do in the next analysis is break out a little more information on the employment circumstances of these individuals, particularly crossing it with the health insurance issue, to see if that is a possible explanatory factor for the rates of coverage.

Chairman FORD. The Census Bureau has reported that poverty is increasing regardless of whether you count the in-kind benefits or not. As I recall, your study compared the incomes of families brought from the AFDC to the poverty level.

Would you briefly restate for the record what you found, once again?

Ms. HEDRICK. In Boston, Milwaukee, and Syracuse, the percentage of households below the poverty level was 28 to 41 percent. In Dallas and Memphis, it is much higher—75 to 86 percent.

Chairman FORD. Did all earners who lost AFDC increase their earnings after the budget cut of 1981?

Ms. CHELIMSKY. Not all. Some decreased their earnings. The majority increased their earnings, but that is earnings not monthly income. We have had some problems with people misunderstanding the distinction.

Chairman FORD. What percentage of decrease; do you have that?

Ms. HEDRICK. It is 11 percent in Syracuse; and it is somewhat higher in the other four localities—about a fifth to a third of those working decreased earnings.

Chairman FORD. I am sure the administration is going to be testifying in just a few minutes. For the record, I would like to have all five areas on the percentage that had decreased earnings.

Ms. SHIPMAN. For Boston, 21.9; Dallas, 30; Memphis, 27.9; Milwaukee, 31.9——

Chairman FORD. Milwaukee, what?

Ms. SHIPMAN. 31.9.

Chairman FORD. And Syracuse?

Ms. SHIPMAN. 10.7 percent decreased their earnings.

Chairman FORD. As I recall, the GAO found that only 7 to 14 percent of the total AFDC caseload was affected by the cuts.

Would you state again the percentage of earned income cases affected by the cuts of 1981?

Ms. HEDRICK. The percentage of working cases affected ranges from 39 to 60 percent of the cases closed across the five sites. And an additional 8 to 48 percent had their grants reduced. So there were case reductions on top of the case closings.

It is also somewhat more likely for an affected case in, say, Dallas or Memphis to have been closed, rather than just reduced.

Chairman FORD. The chairman would like to know, does your evaluation suggest any legislative remedies that the Congress should pursue at this point, in light of the study being released and in light of GAO highlighting some of the problems that exist among the poor and AFDC recipients as it relates to the health care coverage through Medicaid that has been lost?

Ms. CHELIMSKY. I think it is too soon for us to say anything about that yet. We still have some other analyses to do, which will be coming out in a few months, and I think at that point we will have some policy recommendations.

Chairman FORD. In the meantime, how do we respond to the 1 million children that you have brought out in this study, and the findings of the study, that no longer have any health care coverage at all? What do we do about it? What should the Congress do about the 493,000 families that, according to the report—it has already said they are out there without health coverage, and 1 million children are being affected by it?

Ms. CHELIMSKY. Yes. I find myself in the typical researcher's position where I have something to say that I know about, and now you are asking me to say something that I really don't know much about, as I am not a policymaker. But my sense is that——

Chairman FORD. You would admit that something——

Ms. CHELIMSKY. Something, yes.

Chairman FORD. There are 1 million children, in addition to the others who are already out there.

Ms. CHELIMSKY. I admit it, what I am saying to you is that that is not my special expertise.

Now, having said that, as a citizen, yes, I think something needs to be done. But, as the Director of PEMD, I am not sure that I am qualified to move from a statement of fact to policy implications.

It does seem to me that when you look at the fact that only 40 percent are covered in Dallas for health insurance, that leaves 60 percent without any coverage of the people that we have looked at. That looks to me like a lot of families uncovered.

So I would say yes, I agree something needs to be done. But from the study, we are not ready to speak to the policy implications yet. We will.

Chairman FORD. Can you describe any subsequent work that you will be doing with this study before any recommendations, if any recommendations will be made?

Ms. CHELIMSKY. Yes.

One of the things that we need to do is to look at any competing explanations that might be possible for the data that we have, for the information that we found. We have looked already at some, and we are absolutely confident that these initial findings are correct, but there are other things that we have to look at yet.

As Terry mentioned, there is employment data that we haven't looked at. There is household composition data that we haven't looked at. All of these may have a bearing on what we have already found, and we will need to consider that before we make recommendations.

There will be new data. So, I think we should not make policy recommendations at this point.

Chairman FORD. Thank you very much.

Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Let me ask you a question about your study of the families. You spoke to the earned income.

Did your study address other sources of family income, such as unreported income, social security, unemployment, or any others?

Ms. HEDRICK. Our data on household income comparisons to the poverty level include all sources of earned and unearned income reported to us except housing subsidies.

Mr. CAMPBELL. It doesn't include housing subsidies.

Ms. HEDRICK. Right.

Mr. CAMPBELL. It does include child support?

Ms. HEDRICK. Yes.

Mr. CAMPBELL. And it does include Social Security payments?

Ms. HEDRICK. Yes.

Mr. CAMPBELL. Unemployment compensation? All of those are included?

Ms. HEDRICK. Yes.

Mr. CAMPBELL. In your report——

Ms. HEDRICK. And food stamps.

Mr. CAMPBELL [continuing]. You mentioned that you haven't completed work and that you are going to be doing some other research. You were asked to draw a conclusion as to what could be done, and you said that you couldn't because you hadn't completed work.

What can we really look forward to obtaining from the additional data? Would you explain exactly what you are going to try to draw out?

Ms. HEDRICK. We are drawing up an analysis plan now. We have a lot of data that we haven't touched yet. The information on changes in household composition and characteristics of the AFDC households is something we want to look at.

Also, housing arrangements as they existed before and how they have changed, whether people moved or not, whether people moved in with parents or relatives, or took in boarders, changes in day care arrangements that occurred—not only the arrangement but the cost of the day care.

Regarding the health area, we have a lot of data, self-report data, on the kinds of problems that went untreated or the kinds of health problems that people reported they were experiencing at the time of the interview.

Mr. CAMPBELL. Are you going to compare that to perhaps delays by any family in the same or combined income level in the general population that is not AFDC, to find whether there is any difference in what is not treated or put off as a decision?

Ms. **Hedrick**. I think it would be nice to do, if we can find data adequate to do it. And we are looking now at various surveys and data sources that exist to see if there is any way we can get a comparable group that is appropriate.

Mr. **Campbell**. I hope that you can, because we don't want to draw the conclusion that this group is the only one that is doing it. Others may be making decisions in the family and have their own insurance and, for whatever reason, put off coverage or put off having dental work, or whatever it might be, and I think it would be very beneficial to us to know how other families that aren't on the public welfare system are handling the same problems. I think that we should know that.

Ms. **Chelimsky**. I think it would be safe to say that we will look for other existing information. But I think it is very doubtful that we would collect any new data unless you specifically asked us to do that, which we could consider doing at that point.

Mr. **Campbell**. Would you let us know if you can find any other?

Ms. **Chelimsky**. We certainly will.

Mr. **Campbell**. Did you find anything, or is this something else that is going to come along with regard to presence of children in families under the age of 6 or under the age of 3, and the tendency of their mothers as heads of households to go into the work force, their earnings, and did they enter and remain. Also, what kind of data do you have on the availability of child care for these people and how much they were utilizing it?

Ms. **Chelimsky**. I believe we have a lot of information on all of that that has not yet been analyzed.

Mr. **Campbell**. We will look forward to getting that.

Ms. **Chelimsky**. Oh, yes. We have not yet touched the whole household composition issue. But we collected a lot of data on that, and we should have a good deal of information on it. It is quite a rich data base that we have.

Mr. **Campbell**. There are many other sources of support in for child care. I am interested to see whether they are being taken advantage of by those who, if they wanted to, wanted to go back to work, or are not being taken advantage of, and I hope that we can draw that out.

You have testified that the people who were affected generally did not quit work and go back on the welfare rolls. They generally, on the average, increased their income.

Ms. **Chelimsky**. Yes.

Mr. **Campbell**. That means that they worked more or worked harder.

Ms. **Chelimsky**. Increased their earnings.

Mr. **Campbell**. Their earnings; excuse me. Their earned income, that which they were earning.

Ms. **Chelimsky**. Yes.

Mr. **Campbell**. From the job.

Ms. **Chelimsky**. Yes.

Mr. **Campbell**. But they did increase it.

Ms. **Chelimsky**. The majority.

Mr. **Campbell**. Could you tell me what your average percentage of increased earnings was?

Ms. **Chelimsky**. We have that.

Chairman **Ford**. Mr. Campbell, will you yield?

Mr. **Campbell**. Sure.

Chairman **Ford**. Also, would you add and make it clear if we are talking about earnings versus the total?

Ms. **Chelimsky**. Yes.

Chairman **Ford**. The total income; and also give us the loss of these AFDC recipients who entered into the work force with in-kind benefits—I mean, the total picture?

Ms. **Chelimsky**. Yes.

Chairman **Ford**. I think that is one point that we want to make clear; that earnings—and I think the administration is absolutely correct; they did increase their earnings.

Ms. **Chelimsky**. Yes.

Chairman **Ford**. But we want to look at the total picture. And I would hope that we will respond to both the earnings as well as the total loss.

Ms. **Chelimsky**. Yes.

Mr. **Campbell**. Give me the average increase.

Ms. **Hedrick**. Let me give you the percentage of respondents who increase. For Boston, it is 68 percent increase in earnings; Dallas, 50 percent; Memphis, 38 percent; Milwaukee, 57 percent; Syracuse, 71 percent. This is an increase in earnings of greater than $25 per month after adjustments for inflation.

This is only, however, for those working at the time we interviewed them. So you have to put these figures in context with the numbers that were no longer working when interviewed.

Mr. **Campbell**. What percentage were working?

Ms. **Hedrick**. The percentage working when interviewed was 88 percent in Boston; 69 percent in Dallas; 63 percent in Memphis; 77 percent in Milwaukee; and 85 percent in Syracuse.

Mr. **Campbell**. You averaged out better than 75 percent of them?

Ms. **Hedrick**. Yes.

Mr. **Campbell**. That were working.

And the average increase in their incomes is over 60 percent, if I just run the figures up in my head?

Ms. **Hedrick**. No; I am sorry.

Mr. **Campbell**. Is that right?

Ms. **Hedrick**. What I gave you was the percentage of people who had an increase of more than $25.

Mr. **Campbell**. Excuse me. I want to know how much the incomes increased.

Ms. **Chelimsky**. We don't have that yet, I don't believe.

Mr. **Campbell**. Would you supply that?

Ms. **Chelimsky**. Yes, absolutely.

Mr. **Campbell**. I don't want to belabor it. If you would supply it.

Ms. **Chelimsky**. Yes.

[The information follows:]

Based on data in table 19 of GAO's report "An Evaluation of the 1981 AFDC Changes: Initial Analyses" (GAO/PEMD-84-6), the average monthly earnings found in 1983 for employed OBRA terminees represents a 25 percent increase (in constant dollars) in Boston from the average monthly earnings reported for the month before their OBRA closing. Comparable figures for the increases in the other sites are: 6 percent in Dallas, 8 percent in Memphis, 18 percent in Milwaukee and 17 percent in Syracuse.

When considering the income of all respondents (those working and not working), we found that the average monthly respondent income in 1983 (including any earnings, AFDC or food-stamp grant received), represents a 12 percent decrease (in constant dollars) in Boston from the average monthly respondent income reported for the month before their OBRA closing. Comparable figures for the decreases in the other sites are: 31 percent in Dallas, 29 percent in Memphis, 18 percent in Milwaukee, and 17 percent in Syracuse.

Mr. CAMPBELL. You do have the figures, that 75, roughly in that range, was working?

Ms. CHELIMSKY. Yes.

Mr. CAMPBELL. And that more than two-thirds, almost three-fourths of them, increased their income?

Ms. CHELIMSKY. Yes.

Mr. CAMPBELL. And we are looking to see how much they increased. We don't know that yet.

Ms. CHELIMSKY. Yes.

Chairman FORD. Mr. Campbell, before they respond, if you don't mind, to the latter question, we are talking about the earned income increase, but looking at the total picture of it.

Ms. CHELIMSKY. Yes.

Chairman FORD. Tell us about the decrease in the same statement, if you don't mind, the overall picture.

Ms. CHELIMSKY. Of the monthly income. I had it in the testimony, so it should be easy to get out right here.

Ms. HEDRICK. This is the percentage of people experiencing a decrease in income; is that what you are asking?

Ms. SHIPMAN. What you are asking is the percentage?

Mr. CAMPBELL. I would like to know what percentage had decrease in their income, too.

Chairman FORD. We can get that information.

Mr. CAMPBELL. You can supply it. That is fine.

Ms. SHIPMAN. I think what you are asking is, looking at the average dollar difference we got, what is the percent difference relative to what they were first earning, or what they first had as total income?

Chairman FORD. In other words, we see the difference in the earned income?

Ms. SHIPMAN. Yes.

Chairman FORD. But when we look at the total picture with other in-kind benefits that have been lost, AFDC or Medicaid benefits, we want to know what the total picture looks like. Yes, they have increase in earnings, but what is the total picture of the decrease?

Ms. CHELIMSKY. Chairman Ford, I think I found what I am looking for. It took me an hour.

The findings were that, first, 77 to 88 percent of the respondents were employed—your question—when we interviewed them in Boston, Milwaukee, and Syracuse. But in Dallas and Memphis, the figures were lower, at 63 to 69 percent.

Of those who were in the labor force at the time of the interview, 38 to 71 percent had increased their average monthly earnings, even after an adjustment for inflation. So it is a conservative figure. But 11 to 32 percent reported decreases in earnings, compared to their situation before OBRA.

However, despite increased earnings for some respondents—and that is where we were trying to make the difference between earnings and incomes—all sites showed a similar pattern of loss when the total monthly income of the respondent was compared with the period before OBRA and the time of the interview.

Chairman FORD. Go over that once more. Would you repeat that?

Ms. CHELIMSKY. Yes.

However, despite increased earnings for some respondents, all sites showed a similar pattern of loss when the total amount of income for the respondents was compared for the period before OBRA and the time of the interview. The respondents' income from any earnings, plus AFDC and food stamp grants, was significantly lower—$115 to $229 a month lower in constant dollars across the five sites. So that is again a conservative figure.

Mr. CAMPBELL. Could you—and this data does exist; you can get it from the Census—give us, please, the average earnings of these families, the average total income, including their supplements, and let us know how many people in the population reported income not being subsidized in the same range across the country, so we could understand what we are talking about? In other words, if these families are making—and I have no idea—say, they are making $9,000, $10,000, $11,000 a year, utilizing supplements, and so forth, or even if they have been dropped, that are in this group—I would like to know how they compare to working people across the country that aren't on any subsidies that may be paying taxes.

Ms. CHELIMSKY. We will try to do that. But we will do it according to income only. We won't look for any technical similarities——

Mr. CAMPBELL. I understand.

Ms. CHELIMSKY [continuing]. Between the groups that we have and the others.

Mr. CAMPBELL. I understand.

We would like to know whether there are people out there that are drawing, that are earning, as opposed to this.

Ms. CHELIMSKY. With pleasure.

Mr. CAMPBELL. A while ago in one of your statements you made a reference to the fact that your figures, your earnings increases, were adjusted to inflation.

Ms. CHELIMSKY. Yes.

Mr. CAMPBELL. So those were real increases?

Ms. CHELIMSKY. Yes.

Mr. CAMPBELL. So the incentive was there to go back or to work harder, and so forth.

Now, let me ask you this question. Tell me the timeframe your study covered. June 1982 to the fall of 1983?

Ms. CHELIMSKY. We covered a period between 1981 to 1983 in terms of the recipients, in terms of the time of the program that we looked at, the OBRA changes.

Ms. HEDRICK. If we are talking about changes that occurred in the circumstances of these families that lost AFDC, we are talking about time periods from October of 1981 to the fall of 1983.

Mr. CAMPBELL. The country, if I recall correctly from many statements and a lot that I have read, from late 1981 through mid-1983, was in a recession. And during the fall of 1983 and in 1984, a tremendous recovery has taken place. Unemployment is way down. After-tax earnings are way up.

Would this have affected this group had the study been done later? I mean, would the general economic trend have impacted this group just the same as it would have the rest of the population?

Ms. CHELIMSKY. That was something that concerned us quite a lot when we started the study, and I guess the first point I would make about that is that national unemployment doesn't necessarily translate to local unemployment. You have different types of unemployment in different places. And we looked at sites that had in fact had stable unemployment rates. That was one of the ways in which we chose the sites.

The other thing is that most of our people were working when we interviewed them, so the issue of unemployment, luckily, was not a big problem.

Mr. CAMPBELL. But let me ask you this. As I read the manufacturing hours that were being worked and utilization and all, and the number of hours worked in a week, would the availability of additional time to work up to a full schedule have equally applied to this group as it did to the population as a whole? In other words, more work was available, and the income was up?

Ms. CHELIMSKY. I think that most are full-time.

What is the percentage of part-time that we have there? Do we know?

Ms. HEDRICK. We don't have it broken down that way. But our average weekly hours worked for at least four of the sites are pretty close to full-time.

Mr. CAMPBELL. But the point I keep driving at is, with the additional income and availability of work and increased work week and increased earnings for the general population in the economic recovery—these people increased their earnings in a recession. That is the period you told me that you covered. They increased their earnings substantially in a recession.

So in an economic recovery, is it reasonable to say that they would have benefited also by increased earnings or increased opportunities to earn?

Ms. CHELIMSKY. It is extremely hard to say. First of all, different industries are affected differently by the way in which prosperity occurs. I am not sure to what degree very low income people are always affected by prosperity when it occurs. So that is a part of the problem.

Mr. MOORE. Will you yield?

By the same token, isn't it difficult to say they would not?

Ms. CHELIMSKY. Oh, yes. I wouldn't say they would not. I am just answering the question as it was posed. I would not say they would not.

The other point that I wanted to make is that it seems to me that the real question there is, how high up the earnings have gone in terms of the income losses that occurred. There is a significant difference for all the five sites between the income before and the income after. And the question that then concerns us here is what occurs in terms of the effects of that loss.

But I think the real issue you are getting at is, could they, with prosperity, have made up that difference? Isn't that really what you are asking?

Mr. CAMPBELL. That, and couldn't maybe more of those that didn't have a job have an opportunity for a job?

Ms. CHELIMSKY. Yes. Certainly, if the jobs happened to be in the area where unskilled people——

Mr. CAMPBELL. I understand.

Did not most of those who went back to work hold a higher level of education—in other words, high school?

Ms. HEDRICK. We don't have that analysis yet, but we will have it in the future.

Mr. CAMPBELL. But that is not in your data?

Ms. CHELIMSKY. We have some, yes.

Mr. CAMPBELL. Let me ask this as a final question, and I have overdone my time and I will come back around: Did you look at the purpose of the AFDC? Is its purpose to maintain a permanent subsidy, or is it to assist people until they can get back in the work force?

Ms. CHELIMSKY. We know the purpose as it is written in legislation, but that was not part of our study.

Mr. CAMPBELL. But it is not a permanent purpose, is it? It is a program of assistance to get people back into the work force?

Ms. CHELIMSKY. I believe it is, yes.

Mr. CAMPBELL. Thank you.

Chairman FORD. At this time, the Chair will recognize Mr. Stark. But, before that, the Chair has one question to clear up some of the colloquy between Mr. Campbell and the GAO.

Including all families—we are talking about including all families; not just the families with earnings after the reductions, but all families—what was the average change in the earnings across all sites?

Ms. HEDRICK. I can't give you the specific figures. I can only tell you the pattern. If you include everyone in the analysis, the pattern of earnings increase does not persist across all sites.

Chairman FORD. But I think there is one thing that I want to go back to. The recipients who lost their AFDC eligibility, suffered, according to this report, a substantial loss of income, which could not be made up by any increased earnings through other means.

Is that correct or not?

Ms. HEDRICK. Yes; it was not made up.

Chairman FORD. Is that correct?

Ms. HEDRICK. Yes.

Chairman FORD. The average monthly income loss of a working single parent you talked about earlier. The loss of AFDC eligibility was $186 in Memphis, according to the report, $229 in Dallas, $180 in Milwaukee, $151 in Syracuse, and $115 in Boston. That is the income loss for these five cities—not the earned income—is that correct?

Ms. HEDRICK. Ms. Shipman.

Ms. SHIPMAN. Right.

Chairman FORD. Right?

Ms. SHIPMAN. Between 1981 and 1983.

Chairman FORD. 1981 and 1983?

Ms. Shipman. Yes.

Chairman Ford. And those are the families that we are talking about, the head of the household gainfully employed; is that correct?

Mr. Campbell. Is that annualized income?

Ms. Shipman. Oh, no. This is in monthly terms.

Mr. Campbell. Monthly income. I just wanted to make sure.

Chairman Ford. That is the monthly income loss?

Ms. Shipman. In constant dollars.

Ms. Chelimsky. Yes.

Chairman Ford. We talk about the earned income going up, but the monthly income lost in those five sites are the figures I just called up; is that correct?

Ms. Chelimsky. That is right.

Mr. Campbell. Let me ask a quick question on that.

Mr. Stark. Be my guest.

Mr. Campbell. Would you supply us, please, with the average income total from all sources of the families that went back to work, by site? Do you have that?

Ms. Hedrick. Do you mean stayed in the labor force?

Mr. Campbell. Yes, madam; that are working. I want to know what they are earning, what we are talking about, whether we are talking about people making $8,000, $9,000, $10,000, $11,000, whatever we are talking about.

Ms. Chelimsky. Certainly.

Mr. Campbell. Thank you.

[The information follows:]

The following information is derived from interviews in the fall of 1983 with persons who lost AFDC eligibility due to OBRA. It shows earnings and income received in the fall of 1983 (in current dollars) only for those persons who reported that they were working both prior to OBRA and in the fall of 1983. Monthly respondent income is calculated as the sum of earnings plus any Food Stamp and AFDC grants received at the time of the interview. Annualized figures are calculated by multiplying the monthly figures by 12. Average monthly earnings were previously reported in Appendix III of GAO's recent report, "An Evaluation of the 1981 AFDC Changes: Initial Analyses" (GAO/PEMD-84-6).

	Boston	Dallas	Memphis	Milwaukee	Syracuse
Average monthly earnings (from appendix III)	(n=96) $933	(n=80) $650	(n=68) $529	(n=91) $1,000	(n=112) $846
Average earnings annualized	11,196	7,800	6,348	12,000	10,152
Average monthly respondent income	(n=88) 960	(n=64) 756	(n=52) 648	(n=88) 1,036	(n=108) 867
Average respondent income annualized	11,520	9,072	7,776	12,432	10,404

Chairman Ford. Mr. Stark.

Mr. Stark. Thank you, sir.

Dr. Chelimsky, thank you. I unfortunately am awash here in a sea of statistics.

Ms. Chelimsky. Good. That is what we hoped would happen.

Mr. Stark. I am witnessing, or about to witness—and I am really quite disappointed in the GAO—I am about to witness the battle of the Ph.D's. Mr. Pellechio is about to make the case that you have made the case for the Reagan administration, which proves that by kicking people off of AFDC we are getting them back to work. And

I read into that the idea that there are somehow lazy laggards who, if we just put them on the public tit, they will stay there forever and not go to work. And the earnings have gone up and the income has gone down.

Let me just see if I can get some of these people—not WASPy Ph.D's that I see out in the audience, all of whom spend more in their education than these families will spend in a lifetime on food—can I get into focus the average person that you interviewed and see if I can make some sense out of what is happening to these people?

Is it not a fact—and when I say 90 percent, give me 10 percent one way or the other—is it not a fact that, say, over 80 percent of these recipients are single-parent households with little children, or children who need some attention? They are not children who ought to be off earning a living or joining the armed forces, going to college. And that, in fact, most of them are women, 80 or 90 percent.

Am I still on the right track?

Ms. **Chelimsky**. So far, so good.

Mr. **Stark**. And that, in fact, 80 or 90 percent of them work at the minimum wage or below, and we don't arrest the employers, unfortunately, who are paying them below the minimum wage, but that also is the picture, and most of them are not working full-time—is that correct?—80 or 90 percent?

Ms. **Hedrick**. The averages are somewhat close to it, yes.

Mr. **Stark**. Now we are hearing today that, therefore, for whatever reason, they lost their modest AFDC payments, that cost this country less than one nuclear aircraft carrier or an MX missile, I suspect, and they increased their income from a job, their paycheck, by about 10 to 15 percent.

That is what your study tells us, isn't it?

Ms. **Chelimsky**. Something like that.

Mr. **Stark**. You have got a family who is cranking in less than 7,000 bucks a year. That is what the minimum wage is. It is the most you can make under the minimum wage without any overtime. And so once we kick them off AFDC, what you are telling me is they increased their earnings about 600 bucks a year, 700 bucks a year.

Now, isn't it reasonable to assume that they didn't get a raise from their employer; they just worked a few more hours? Is that a fair assumption? In other words, maybe the employers all heard, in the cases you interviewed, that they lost their AFDC and they said, "Oh, my goodness, I'll give you a raise." I can see Ray Kroc saying that to every McDonald's stand. Everybody who gets kicked off AFDC, pay them more than the other hamburger fryers.

But isn't it the case that these women, with small children at home, just merely worked more hours and paid less attention to their children? Isn't that what your study shows?

Ms. **Chelimsky**. It is perfectly possible that that is true. Whether or not it is a reasonable assumption, my Ph.D WASPiness doesn't allow me to say at this particular point. It could well be true. I just don't know.

Mr. **Stark**. Let me ask you this: In your Ph.D'ish answer, where the hell did the money come from?

Ms. Chelimsky. We do know about that—forgive me. I was referring to your point about less attention being paid to the children.

Ms. Hedrick. We do have some increases in hours worked for the people that we interviewed at four locations, significant in Boston.

Mr. Stark. So what you are saying is they did work more hours?

Ms. Hedrick. Slightly more.

Mr. Stark. Which means, by the same assumption, they either paid more for child care or they left their children for an increased number of hours.

Is that a reasonable assumption?

Mr. Moore. Will the gentleman yield?

Mr. Stark. In a moment. Let me just get my point established.

Let me just back up a minute because I don't want to get into numbers. What I am saying is that 80 to 90 percent of the people you interviewed were poor women who were single parents with children, and if they lost their AFDC the only way they were going to get any money—the guy from the administration can sit down; he will get a chance to ask his questions later—the only way we are going to get any more money, losing AFDC, is to work a little longer. This is not an unreasonable assumption. Therefore, the children, the family, the unit that President Reagan keeps talking about, got less attention.

Isn't that a reasonable assumption, also?

I thank you. I really wanted you to comment because you are making Mr. Pellechio's case here. I mean, his case, he makes eloquent testimony here that welfare mothers aren't moving more vigorous toward self-sufficiency.

Now, we could help that by going to slavery or issuing whips, I am sure. But how would, in your opinion, any of these people become more self-sufficient? Were they working at jobs that paid the minimum wage when they, in fact, were able to work at a higher level job? Was there any indication? Were they turning down higher paid jobs, just to stay on AFDC? Is there any indication of that in your study? Were they cheating? Were people on the program because they were hiding assets; they were making money in commodity futures and not reporting it? I mean, there is no evidence of cheating or raw misstating?

So basically what we just had are people—and I have got studies here from 1982—but basically that 75 percent of the people in 1982 were making less than 500 bucks a month in earned income.

Is that about consistent with your——

Ms. Chelimsky. I think so, yes. There were women earning less that $500 per month in Dallas and Memphis.

Mr. Stark. So you are talking about people on the average with less than $500 who were purposely holding their income down at that level so they could get these munificent benefits from AFDC.

I guess I am just trying to paint a picture, when you take the AFDC benefits away, what evidence—I am just asking you as individuals—what avenues were open to these people to, in the immortal words of Dr. Pellechio—would get these people to "vigorously move toward self-sufficiency"? Is there anything short of whacking them on the backside? Is there anything we could do? Are there any carrots we could hold out in front of them? Would they go back and get more education? What can we do for these folks?

What are alternatives that the statistics would show? I guess that is what I have to ask you.

Ms. **Chelimsky**. I guess the thing that we have to look at in this study is that many people predicted that when the OBRA regulations were implemented, that you would see a mass return of people to AFDC; that they would stop working and go back to the rolls.

All I can tell you is that ours is the second study that has shown that that really didn't occur in any large mass kind——

Mr. **Stark**. So they really do like to work?

Ms. **Chelimsky**. That is not the point that we are making. We can't say why that is, at this point. I am not sure we will ever be able to say it.

The fact is that only 7 to 18 percent went back. In the RTI study before us, it was 15 percent. I think we have to look at that and ask what that is about. I can't make an assumption about what the reason is, but we do have the data and they seem extremely hard.

Mr. **Stark**. But Dr. Pellechio is also going to tell us that these people were well educated, and they have what he refers to as "strong ties to the labor market." I assume that is not indenture, but that they are in fact freely entering into the labor market, and they have 12 years or more of education—and some had college education, 30 percent—and those who lost their AFDC had worked for the same employer for over 3 years. But nonetheless, that elite group was still on the average, 80 percent or more, making less, earned income of less than $500 or $600 a month.

Thank you.

Chairman **Ford**. Mr. Pease—I am sorry; Mr. Moore.

Mr. **Moore**. Thank you, Mr. Chairman.

I would like to follow up on a couple of questions just asked by the distinguished gentleman from California. A moment ago he asked the question: Wasn't it true that some of the people that had increased earnings worked extra hours? And the response, I believe the record will show, was that some did.

Don't you have harder figures than "some"? Can you give us the percentage of how many increased hours?

Ms. **Hedrick**. Yes, we do, in table 19 of the report.

Mr. **Moore**. Would you read off those figures?

Ms. **Hedrick**. This is of all cases that we interviewed. Those showing an increase in hours worked were: 16 percent for Boston; 12 percent for Dallas, 11 percent, Memphis; 12 percent, Milwaukee; 16 percent Syracuse.

Mr. **Moore**. Am I fair in saying then that of the people who increased their income, only this many worked additional hours to do it? Is that what that figure means? Earned income—those who increased their earned income only, in Boston, 16 percent, did it by working extra hours?

Ms. **Hedrick**. Not necessarily, because the figures I just gave you refer to the group as a whole, and are based on the whole group of people we interviewed.

Mr. **Moore**. What percent, then, of the people who experienced increased earned income did so by working extra hours?

Ms. **Hedrick**. I would have to break that out. I don't have that.

Mr. MOORE. Then you need to do that, because otherwise you can't answer the gentleman's question and you leave a false impression that we forced, as the gentleman is indicating, everybody to leave their children and slave overtime to make some extra money. And so we need to have that additional corrected data or we are left with an incorrect conclusion.

Second, how many of those people, the 16 percent in Boston, the 12 percent in Dallas, and so on, went up to a regular 40-hour week, or how many worked overtime? What percent of the 16 percent from Boston, when they worked extra hours, were still working on a regular hour basis or working overtime? Do you have that information?

Ms. HEDRICK. I can't give you that, no.

Mr. MOORE. I ask you to give us that information, as well, because again we have to draw the conclusion as to how hard these folks are working and what effect that is having on them.

Now, I am concerned by the same questions that were brought up by the gentleman from California, and my colleague, the gentleman from South Carolina, talking about the economy being a problem here.

I want to thank you for the work you have done. You are giving us information, and that is very, very important.

We need to know—we have made the decisions; I was here on the subcommittee and we made those decisions in 1981—we need to know whether they are good or bad. But when we make that judgmental decision, we have got to be darn sure we have absolutely correct data and conclusions from that data.

I think one of the only problems we are finding with the study that you are giving us this morning—and I fully admit you gave us a very brief review of that—you said that at the outset of your testimony this morning, just a brief review of all the data that you do have and can break out for us—we need to look at this question of the economy, because it does have an effect.

If Dr. Pellechio's comments are correct on page 7, commenting on the information brought out by the gentleman from California, which was brought out in testimony that unfortunately we will be able to hear in a few minutes: "Depending on which of the five studies one looks at, between one-half and three-quarters of those who lost AFDC had 12 or more years of education; in one site, nearly 30 percent had some college training. In addition, those who lost AFDC had worked for the same employer about 3 years on the average"—I would ask him the same questions; let's get specifics, hard numbers and not generalizations.

I gather from this information we are not talking about hardcore unemployed and hardcore welfare cases. We are talking about that gray area of people who may be true welfare cases or may not be, depending upon their particular circumstance. And, as you pointed out in your testimony, the net has been a loss to a number of them by virtue of taking them off AFDC, even though they increased their income.

But my question is: Are these the kinds of people—I think they are—the gentleman from South Carolina has made a good point; these are the kinds of people we need to look at the general economy, what is going on in that area. They may well in fact be getting better jobs or better paying jobs or further merit increases, by virtue of the fact that they were working in a job with some education in the midst of a recession, and unemployment was extremely high, and these people were working. So it doesn't mean to me they are the hardcore types that we never have any hope for unless we do something to help them get themselves out of their mess.

I think you need to really seriously reassess the results of your study looking at the economy in each of those five study sites, what was the unemployment in those areas. That has been the general case of the income increases. And those figures are available for the general working people in those areas.

For instance, I know that Mr. Pease's district, or in mine, you may find unemployment still very severe; whereas, in Syracuse, it may have greatly improved. That being the case, you can expect these kinds of people to do better. And we are looking at a national study, so we have got to be very careful about the results we conclude, of excluding what is going on in the economy, and using tunnel vision of what happened between 1981 and the fall of 1983, because that was a recession with high unemployment.

And these people, I am arguing—and you have got to tell me this based on your studies—may or may not be the kind of people who are the quickest to climb out of their current unfortunate status and the loss they have sustained in total dollar income, as the economy improves.

Can you do that for us?

Ms. HEDRICK. I think one of the things we would like to do in the next round of analysis is to break out more detailed information on exactly who these people are, and I think the risk one runs in looking at data like this is to come up with a single characterization. These people who lost AFDC due to OBRA may represent several different kinds of people with respect to labor force attachment, past reliance on AFDC, housing, child care arrangements, et cetera. And I think we would benefit from having a more detailed description of exactly what their circumstances are and have been.

Mr. MOORE. I think your study is great so far. I must ask you to take one step further so we start drawing conclusions in this subcommittee later this year or next year, that we have the complete picture that can leave no one any room to say there is something left that hasn't been done, or studies.

Likewise, let me say it: Is it possible for you to work with the IRS, once you determine the income, what kind of jobs were acquired in these cases, by people who are working. Can you work with the IRS, to see if there is any proclivity of these certain jobs to have some of those people in the underground economy.

We know that we have $100 billion in taxes owed by the underground economy. You figure that if you are taxing these people at 20 percent, you are talking about many, many more hundreds of billions of dollars in income that somebody is making that is not being reported. Somebody is doing it. It may not be these folks, but I think the IRS has some ideas about who these folks are, and that may give us a further indication about whether they really are possibly sustaining the net loss you are predicting.

I know you are saying all we can go by is by the figures they tell us, but we have got to also consider the fact that there is an underground economy. And we think we have got some ideas—perhaps working with the IRS you can pin that down further—as to who some of these folks may be.

In my area, it is rampant. In my area, it is because we have got a bad tax system, or whatever the reasons are. But I think the IRS has some indication of that. That tempers somewhat our conclusions that all of these folks really are sustaining all of these losses we think they are. Maybe they are; maybe they are not. But that needs to be another ingredient thrown into your study, I think.

Ms. CHELIMSKY. I think we can certainly talk to the IRS; that isn't a problem. But there are a lot more things that you haven't outlined that we need to do. For instance, we noticed a big difference in private insurance coverage. We think it is perfectly possible that that may have to do with the types of jobs that people had in the past in the sense that some jobs are covered and other jobs are not. So there are all kinds of things yet that we need to look at.

Mr. MOORE. Absolutely. Your Ph.D is showing us up again.

Ms. CHELIMSKY. Sorry about that.

Mr. MOORE. No, no. This is precisely what we are looking for. You need to look at the national patterns on insurance coverage to find out if, in fact, people are making quite a bit more money going through the same health care coverage problems that these folks are, and it may not be just a cull phenomenon to just have AFDC-denied people. It may be a phenomenon going on through the entire economy.

Ms. CHELIMSKY. I need to caution you about that. I am not sure that based on this study we can do that. As we said earlier, we can look at what data are out there, but the matching problem with our groups is going to be difficult. How comparable will they be is always going to be the question that people ask. So, as I said to Mr. Campbell earlier, we will definitely look at what is available out there and simply take something like the same income level.

Mr. MOORE. Exactly.

Ms. CHELIMSKY. That kind of thing.

Mr. MOORE. Exactly.

Ms. CHELIMSKY. But there is no guarantee——

Mr. MOORE. Absolutely.

Ms. CHELIMSKY [continuing]. That we are talking about the same kinds of people and that we can make assumptions about their incentives for what they are doing, or why. That is the problem we are faced with.

Mr. MOORE. Thank you very much. I appreciate your help and willingness to look at these different points of view to be darn sure of what we are doing before we——

Chairman FORD. Before yielding to Mr. Stark, it is difficult for me to believe that members of this committee would try to suggest that the mothers that we are talking about, which the left side of this committee have preached so long about AFDC mothers going into the work force—I think your study has already shown that these mothers do in fact want to stay into the work force.

Ms. CHELIMSKY. I think so.

Chairman FORD. And to try to suggest the underworld or underground, whatever they might be suggesting, to say that these poor mothers who are trying to make it, and not addressing the real serious problem today in which the study has shown that 1 million children have lost medicaid and AFDC benefits, is somewhat of an insult to even think in terms of the poor who have stayed in the work force, who are trying to make it on minimum wage jobs, and that we would try to suggest or add a new twist to it, saying to GAO, look at this or look at that.

The facts are there. There are people who are out there with the lack of health care coverage, and we ought to be about the business of trying to respond to those needs of the poor in this nation who have shown to this Congress and to GAO and to the world that they do in fact want to stay in the work force, and they are trying in every way to respond to those jobs and remove themselves from the welfare rolls.

Mr. Stark.

Mr. **Moore**. Will the gentleman yield?

Chairman **Ford**. I referred to the gentleman, so I will have to yield to the gentleman.

Mr. **Moore**. I appreciate that, Mr. Chairman. Thank you.

I am not saying these people are in fact a part of that.

Chairman **Ford**. You tried to suggest——

Mr. **Moore**. I am not. I am trying to get information to make the decision. And how you can draw the conclusion that they are not, I can no better draw the conclusion that they are. I say give us the information to make a reasonable decision on it because somebody is not paying their taxes. I don't know who it is, but let's find that out.

Chairman **Ford**. The corporate community is only paying in the budget 8.1 percent, so let's start right there.

Mr. **Moore**. If we need to.

Mr. **Stark**. Mr. Chairman, I unfortunately have to leave at this point, and I wanted to leave the committee and the witnesses with the thought that, as I used to sit in your hallowed chair—but I have moved on to another subcommittee of this full committee which deals with the working wealthy, and they wanted aid—they wanted aid in the form of PIK Programs. We spent $17 billion last year in PIK, half of which, $5 million of which, or $500,000 of which, went to the Assistant Secretary of Agriculture, who is also a very wealthy man, and another couple of million went to the Prudential Life Insurance Co., who is going to participate in about a $3 billion welfare dependency, which they want to go on as a long-term dependency, exacerbated by generous earnings and disregards that the good sector or good doctor is going to talk about.

We are disregarding half of the taxes for the life insurance industry. Now, why we can't disregard a few earnings for a welfare mother at $500 or $600 escapes me. But there is some lack of symmetry.

The point I wanted to make—and I think it is difficult to find a lot of statistics that will show us the way to do the right thing—but I have often accused our former colleague, Mr. Stockman, of knowing the cost of everything and the value of nothing. And we are going to get a lot of cost figures today. But the question is: What is the value of life?

It is going to be denigrated in the administration's testimony in a minute that they are overly concerned with the value of life and the quality of life. But I really suspect that that is about all there is to talk about when you are down to such minimum income levels. And I thank you for working so hard.

But I don't think with all the Ph.Ds, getting Ph.Ds on top of each other, we are going to figure out any statistical answer to doing the right thing for barely 3 million people in this country who are just bloody poor and unable to help themselves. And somehow the feeling is that it is a blight. If we could just not see them, I think we might feel better about it. And somehow the question is: Are we going to give them some money and support them, or are we going to somehow preach at them and say, "If you only worked harder, learned more and were better citizens, this problem would go away"?

I thank you for your work. I think you are on the river Styx. I don't think you are ever going to get the answer for either side in a statistical sense that will answer the question of what we ought to do. I hope that maybe the committee can decide that later.

Chairman FORD. Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman.

I would also like to express my appreciation to GAO for a very fine study. As has been pointed out, much of this analysis was done during a period of recession. One would think that during a recession there would be more people on AFDC than usual.

Is that fair enough?

Ms. CHELIMSKY. Yes.

Mr. PEASE. And yet, there were substantially fewer, almost a half-million fewer people on the AFDC rolls.

Did you correlate those two at all? In other words, is the drop of a half-million related to the changes in the 1981 law, or would the drop be higher than a half-million were it not for the increased caseload?

Ms. CHELIMSKY. We feel that the drop is due to the 1981 law.

Ms. HEDRICK. Yes.

Ms. CHELIMSKY. We all feel that very strongly.

I would point out that in the sixties, when you saw a very large rise in the AFDC rolls, we were having an unprecedented period of prosperity. It is very hard to make clear statements about whether prosperity affects the AFDC rolls in one way or another, because of the difference in the kind of work that people do and the kind of match there is between them and the areas that are getting the prosperity.

It is a point that we made earlier. So I just have difficulty in being certain that there ought to be more or less people on the rolls based on what is happening in the economy.

Do you want to add something, Roger?

Mr. STRAW. The 500,000 does include unemployment. Unemployment is built into the model. So that is 500,000 cases, taking the recession into account.

Mr. PEASE. Thank you.

You compare earnings and income for each of these families in your study. With respect to income—prior to people leaving the AFDC rolls, did you assign a value, a dollar value, to Medicaid coverage for those families, or was it limited to cash income?

Ms. SHIPMAN. No, we didn't. So that the cash value of the insurance is also not included in the post, the later income figures. Including them, of course, would just further exaggerate the difference in resources available.

Mr. PEASE. Yes, that is definitely true. The value of Medicaid could be as much as $2,000 a year, could it not, when compared with coverage in the private area.

Ms. SHIPMAN. I am not sure.

Mr. PEASE. Do you have any explanation for the significant variation from city to city of those who have managed to retain health insurance and those who did not—59 percent in Dallas, 13.9 percent in Milwaukee? Is there any explanation for that?

Ms. HEDRICK. With respect to private insurance coverage, we think it may be due to the kinds of jobs that are held by the groups in the different cities. And that is one of the things we are going to look at in the next analyses.

There are also some differences in terms of medically needy program coverage across the five localities, with Dallas not having a medically needy program, and Memphis' program generally limited to children.

Mr. PEASE. Are you suggesting that perhaps in Milwaukee and Syracuse there was a greater percentage of manufacturing employment or unionized jobs, where employer paid health insurance would be the norm?

Ms. CHELIMSKY. It is a possibility.

Another possibility might be that a father had had insurance that stayed with the children. There are several possibilities that would explain it that we need to look at.

Mr. PEASE. You are going to look at that?

Ms. CHELIMSKY. Yes.

Mr. PEASE. Fine.

Would it be fair to say that for those who were able to get some health insurance, the payment for that health insurance represented a new cost for those families which they did not previously have?

Ms. CHELIMSKY. That is right.

Mr. PEASE. Because of coverage from Medicaid?

Ms. CHELIMSKY. Yes. They were categorically eligible for Medicaid when they were under AFDC.

Mr. PEASE. So when you talk about the monthly income of families on the average being reduced in every area, that doesn't tell the whole story. Not only was their monthly income reduced, but they had a new cost factor which they did not have before, further reducing the amount of money they would have available for housing or food or whatever.

Did you inquire at all as to the differences in the quality of health insurance people were able to buy?

Ms. CHELIMSKY. No.

Mr. PEASE. Compared with Medicaid coverage, for example?

Ms. CHELIMSKY. No, we didn't do that. But that would be a good subject for another study.

Mr. PEASE. I won't ask you to surmise. I will make the statement that I think it is almost clearly the case that these families who were able to get some health insurance paid money for it, eating into the availability of money for other purposes, and also wound up with significantly poorer health care coverage than they had before under Medicaid.

Mr. Chairman, thank you. That is all.

Chairman **Ford**. Mrs. Kennelly.

Mrs. **Kennelly**. Thank you, Mr. Chairman.

You told us in your study that an estimated 493,000 less cases were reported, and in cost, $93 million less; and yet, you mention in the study there is a possibility that these figures are eroding.

Have you got any idea why they might be eroding?

Ms. **Chelimsky**. Roger, let me ask you to speak to that.

Mr. **Straw**. There is no information in the study which would suggest why they might be eroding. And I think that we have to qualify that by saying "maybe." We need more data before we can make any conclusive statement about that. But we don't have any information that would suggest why it might be eroding.

Mrs. **Kennelly**. That leads me to another question.

I have heard many questions being asked about getting more data and going back to look at things. Has it been your intention in your study to go back to the same people, or would you be studying other cases when the recession is over and the economy is better?

Ms. **Chelimsky**. We are going to do more on that subject. We are going to go back a year from now. This is a national survey of caseloads. It is not part of the interview effort. But we will be going back and doing this again in about a year from the last date. I don't know whether it will be a year—I think it should be probably about a year—to see whether in fact those figures prove out.

Mrs. **Kennelly**. Another thing I noticed is that some of the cases that were back on AFDC were back for a short period of time during the year. Yet, at the end of the year it was a lower number.

Do you see any reason for that? What was the reason for having to go back for a short time? I can think of many reasons, but did you see any?

Ms. **Hedrick**. We don't know the reasons why they went back, at this time. But we do have data, not yet analyzed, from interviews that asked people, if they went back, why they went back. So we will have that.

Mrs. **Kennelly**. To take this a little bit out of the realm of the figures—and you can't help but think about things—we heard of the possibility that those that once were thought of as welfare cheats now might be tax cheats, and you were asked to go to the IRS.

I wonder—I mean, life does have a seamy side—and I wonder if you could go to the HHS—and did you pick up any—you obviously are close to the study—when we are talking about $400 or $500 or $600 a year, any increases in such things as prostitution, child abuse? These are deeper questions, but they are there. Is there any ability, or is that something that we would have to go to HHS for?

Ms. **Chelimsky**. I doubt that we would have anything like that. The interviews were self-reports, and you know how that works with stigmatizing kinds of events. People don't normally report crimes.

Mrs. **Kennelly**. No, they don't. But, you know, you can't avoid sometimes worring about things like that.

Ms. **Chelimsky**. I wasn't suggesting we not think of it. It is just that you would have to design a study specially, so that you cross-validate things that people said with the idea of ferreting out discrepancies and looking at things of that sort. People have done that in victimization studies quite well.

Mrs. **Kennelly**. That is where we will probably have to go. As Mr. Stark said, we are talking about small sums of money, but very desperate sums of money. Sometimes you get desperate.

Ms. **Chelimsky**. That is not part of this study.

Mrs. **Kennelly**. Thank you. And may I compliment you on your study, and I am very pleased that it is going to continue.

Ms. **Chelimsky**. Thank you.

Chairman **Ford**. Mr. Campbell.

Mr. **Campbell**. I was just looking at some of your tables here with regard to earlier questions that we had, and statements about minimum wage people, and so forth. I looked over here on appendix 3 on page 56 and I see, looking at the average monthly earnings, that is for those working before and after, in the Boston area it went from $700 to $933; in Dallas, it went from $563 to $650; in Memphis, from $458 to $529; in Milwaukee, from $789 to $1,000 a month; and in Syracuse from $678 to $846.

I look back over here on table 19 and I see that the average weekly hours worked in no case comes up to a 40-hour week; that the average weekly hours worked increased in Boston from 35.3 to 37.5; in Dallas, from 34.4—it stayed the same in Dallas; in Memphis, it increased from 27.9 to 29.3; in Milwaukee, from 37.8 to 38.9; and in Syracuse, from 37.2 to 38.4.

Now, if I compute that correctly, nobody in here even at the lowest level is working at minimum income—I mean, at the minimum wage. That is your earned income figure. I am just using that. You can correct me if I am wrong in that assumption. The average is substantially above, in some areas, way above the minimum wage. In other areas like Memphis, much closer to it, but we aren't talking about minimum wage.

Ms. **Hedrick**. On average is different than talking about the full distribution of people. I mean, on average if you compute it out, yes, it will be a little higher. But that doesn't mean that many of the people are not working at minimum wage. Many of them still could be working at minimum wage.

Mr. **Campbell**. I understand that, but we are dealing with the averages.

Ms. **Hedrick**. Yes.

Mr. **Campbell**. I completely concur.

I would be interested in seeing the median figures as well as the mean figures on some of this. But the fact is that the average person you are talking about in Milwaukee is working in that case at a rate, not at minimum wage, not at 1½ times, but more than double the minimum wage, based on the hours that you have on the average.

The only point that I am trying to get at, is that in the question of the economy, when we find over here that people were in fact working not 40-hour weeks, but in the Memphis area working 29-hour weeks, as the economy improves that it stands to reason that there is room for improvement in job opportunity, even on the same job, because they are working substantially less than 40-hour weeks, on the average.

Would that be a fair conclusion?

Ms. HEDRICK. In the sense that some of them are not working a full 40 hours.

Mr. CAMPBELL. I am just using your average now. I can't speak to the low or the high. Using your figure, your average—your average—none of them are working 40 hours.

Would it be a fair conclusion that as the economy improves the opportunity would be there even for those who are not working 40 hours, without having to slave and abandon children or anything else, but to work a normal work week? Is that a fair conclusion?

Ms. HEDRICK. I don't think I can answer it.

Ms. CHELIMSKY. Mr. Campbell, they are not working 40 hours, but in Milwaukee it is 38.9 hours. That is pretty close—and 38.4 hours in Syracuse.

Mr. CAMPBELL. And then read me the others, please, madam.

Ms. CHELIMSKY. The others are lower.

Mr. CAMPBELL. Thank you.

Ms. CHELIMSKY. 29.3 in Memphis.

Mr. CAMPBELL. That is almost 11 hours more.

Ms. CHELIMSKY. But that is the only one.

Mr. CAMPBELL. I understand.

The others are 34.

Ms. CHELIMSKY. Right.

Mr. CAMPBELL. But there is room.

Ms. CHELIMSKY. Also 37.5.

Mr. CAMPBELL. The point I am driving at is this: They didn't increase their earnings by having to go into substantial overtime work, abandon the family, or anything else. They increased their earnings and they are still working under the average week that the average people in this country work.

Is that right?

Ms. HEDRICK. I think you have to break it out, and what we have to do is look at how many people used this pattern to adjust to the AFDC loss versus how many people did something else.

Mr. CAMPBELL. All I have is your figures.

Ms. CHELIMSKY. Your point about the median is well taken, sir.

Mr. CAMPBELL. I would love to see that, because it may be that we have some that have gone extremely high, and it may skew your figures. However, I have been looking at your errors, and of course most of your figures, you say, on your means are average, are accurate, according to you in your report, at .01.

Ms. CHELIMSKY. Yes.

Mr. CAMPBELL. So I am assuming that your figures are accurate on what you gave me. And on what you gave me, the people are not working 40 hours a week on the average, and perhaps the median will tell us a different story. We need to see that.

Ms. CHELIMSKY. We will look at it.

Mr. CAMPBELL. Thank you.

Chairman FORD. Are there other members who would like to be recognized?

If not, the Chair would like to just raise one final question before we let the staff of GAO go from the committee.

There were a number of families interviewed in the five cities that had fallen below the poverty level after the budget cuts in 1981. This ranged from a high of 85.5 percent for families below poverty in Memphis, to a low of 28 percent of the Milwaukee families interviewed in this study.

I think it goes without saying that the study has been very fruitful as it relates to information that we have received from the Census Bureau, information that we have also received from the study as it relates to them falling into paying taxes, going up constantly, with low income families, and now with the GAO providing studies as to health care with AFDC recipients and all. And I just want you to know that the data has been very fruitful to this committee, and I am sure it will be fruitful to other committees in the House, as well as the Senate.

I think there have been many questions put to you and there have been things that the committee has already requested, and we look forward to any additional information in the future that you might have. And we would like to thank all of you for coming over and being with us and taking time from your busy schedules.

Ms. CHELIMSKY. Thank you, sir. It has been a pleasure for us, and an honor, truly.

Chairman FORD. Dr. Anthony Pellechio, the Deputy Assistant Secretary for Income Security Policy from the Office of the Assistant Secretary of Planning and Evaluation of Health and Human Services will be our next witness.

Dr. Pellechio, I would like to thank you for taking the time from your schedule to be with us today. We are delighted to have you. We look forward to the testimony that will be given in a few minutes before the committee, but before the Chair recognizes you, I would like to say staff had made a request to your office and HHS in sending over the copy of your statement before the close of business on May 1 at noon, the Chairman wanted to be privy to that information prior to the session this morning, and I wanted to have an opportunity to read it over late yesterday evening. I did after receiving the statement at around 7:20 last night. I would like to for the record to read our rule 10 of the Committee on Ways and Means which says:

> In order to assume the most productive use of the limited amount of time available to question witnesses, a witness who is scheduled to appear before the committee shall file with the clerk of the committee at least 24 hours in advance of his appearance a written statement of his proposed testimony.

I would like to say that the committee staff talked with you and it was perfectly all right for the office to submit the statement prior to the close of business on May 1, and I would like to put on record if you would like for us to send to HHS a copy of the rules I will be more than happy to do so. As chairman of this committee I say to HHS we expect you all to adhere to the rules of the House in the future.

Mr. CAMPBELL. Mr. Chairman, I concur in that. I would also like to say we did not get the testimony from the welfare administrators until this morning, and that applies across the board. If we are going to have the opportunity to conduct these hearings within a reasonable length of time, then I think that everyone should be put on notice.

Chairman **Ford**. Mr. Campbell, that would apply to all witnesses. I only brought it out because we have had this happen once or twice before with HHS, and I just wanted to for the record have HHS understand, and not witnesses appearing before us today, it applies to everybody at HHS, in the past they have been somewhat slow in submitting their testimony to the committee, so hopefully they will adhere to that in the future.

STATEMENT OF ANTHONY J. PELLECHIO, DEPUTY ASSISTANT SECRETARY FOR INCOME SECURITY POLICY, OFFICE OF THE ASSISTANT SECRETARY FOR PLANNING AND EVALUATION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. **Pellechio**. I think we are aware of the rules. We did our best to try to get it to you on time, and we will try to do better in the future.

I want to thank you first for being the one person who pronounces my name correctly. I appreciate that. I want to thank you and the members of the subcommittee for this opportunity to testify on the results of the GAO study.

All too frequently critics charge that the administration's welfare policy is designed to achieve budget savings no matter what the hardships to the poor; this is simply not true.

I want to make some points about the administration's welfare policy in the context of the GAO study and then describe a responsible policy program for reducing poverty.

My first point is that the 1981 AFDC changes and their impact have been exaggerated.

Second point: These changes were long overdue.

Third, the GAO study substantiates my first and second points.

Fourth, the so-called quality of life criticisms are distorted and inconclusive.

Turning to my first point: Although the 1981 AFDC changes were significant reforms, their impact was limited.

According to the GAO study only 13.4 percent fewer cases were open per month compared to before the 1981 reforms.

Expenditures dropped even less, declining only 9.3 percent.

In a major assessment of Reagan administration policy, Nathan Glazer of Harvard writes:

> Less has happened, much less in the realm of social policy than the amount of anger, resistance, agonizing, and newspaper reporting suggest.

This comports with the point made by Richard Nathan of Princeton that both liberals and conservatives tend to overstate the welfare changes—conservatives because they want to take credit for the changes, and liberals because they want to prevent further changes.

I would like to turn to my second point that the 1981 AFDC changes were long overdue.

Many experts in socal welfare do not take a negative view of the changes.

Blanche Bernstein, former New York welfare director, and currently on the faculty of the New School for Social Research, writes:

> In total magnitude of savings the 1981 amendments can hardly be regarded as a sea change, but do represent something of a major turn back to—

(1) more traditional attitudes of family responsibility;
(2) responsibility of the head of the family to work;
(3) a more vigorous adherence to standards of need established by the States.

Bernstein goes on to say that the 1981 AFDC changes can be regarded as reasonable reforms that reflect the general consensus of the population. Most Americans share the straightforward view that people in need should be eligible for public assistance and that nonneedy people should not. The public is concerned about the long-term welfare dependency of families who have a parent capable of working.

Let me review the facts that faced this administration when it came into office. In 1981, in every State, families of 4 or more could have an adult working full-time at the minimum wage and remain on welfare.

In 15 States, families of four or more with incomes over $15,000 could remain on welfare indefinitely.

Because the 30⅓ disregard applied only to recipients and not to applicants, families who had never relied on welfare could not receive assistance while other families of the same size and income received AFDC and Medicaid. The AFDC Program had become an expensive and inequitable system of income supplements.

It is these facts that really hurt the poor by diminishing public support for welfare programs.

Following the passage of the 1981 AFDC reforms critics complained that the 4-month limit on the 30⅓ disregard and related income changes would combine to create a work disincentive. It was claimed that working recipients, once they lost their AFDC supplement, would quit their jobs and become completely dependent on welfare. The critics argued that the net effect of the reforms would be to increase rather than decrease the cost of the program.

This brings me to my third point: the GAO study shows the critics were wrong and adds to the body of studies that conclude the reforms were well-designed. The GAO study provides further proof that the reforms had only a minor effect on cases without earnings. Almost all of the affected nonearner families had stepparent income or children over age 18.

The GAO study confirms what we learned last year from a nationally representative study conducted by the Research Triangle Institute and from a study done in Wisconsin: earners dropped from the rolls did not quit their jobs and return to AFDC. In fact, in three of the five GAO sites the rate of return to welfare for earners who lost eligibility following the reforms was lower than the rate of return before the changes—in the other two sites, the rate of return did not change.

The GAO study showed not only that earners remained off the rolls, but also that their average monthly earnings increased substantially, indicating that many of them could and did increase their work effort after losing AFDC.

The GAO study found that those who were dropped from AFDC are relatively well-educated and have strong ties to the labor market. Between one-half and three-fourths of those who lost AFDC had 12 or more years of education; in one site, nearly 30 percent had some college education.

In addition, those who lost AFDC had worked for the same employer about 3 years on average. In short, the GAO study shows that the 1981 changes were focused on long-term recipients with earnings who had the means to achieve self-sufficiency.

Turning to my fourth point: In the face of mounting evidence that the long-term effect of the 1981 reforms will be to reduce welfare dependence, critics have abandoned their work incentives argument to develop a "quality of life" issue.

The GAO study, however, does not yield conclusive results on this issue. I have serious concerns about the results on the availability of medical care. The GAO study understates the proportion of affected families covered by Medicaid. In one of the study sites, GAO reports that Medicaid coverage rates for parents and children are actually lower than the proportion of families back on AFDC 2 years later. Because AFDC recipients are automatically eligible for Medicaid, the Medicaid coverage rates must be at least as high as the AFDC participation rates. Further, since four of the five sites are in States that provide Medicaid coverage for the medically needy, the proportion of children eligible for Medicaid should be substantially higher than the proportion of families receiving AFDC.

Perhaps the most important methodological problem with the GAO study is that it does not provide any baseline data on utilization of health care by comparison groups. Many low-income families do not have medical coverage as generous as Medicaid. Rather, these families must budget carefully to pay for health insurance and other medical expenses.

We question the findings of the GAO report that families who lost AFDC now lack health care coverage.

We believe better outreach is needed to inform individuals about the availability of medically needy coverage, other public health services, and private medical coverage. Given the many other options available, making nominal AFDC payments to provide Medicaid coverage is a costly and unnecessary way to provide for health care needs.

Singling out a select group to receive nominal AFDC benefits and medicaid eligibility is especially unfair.

It is likely that medicaid coverage would displace other public and private health care alternatives for a select group, while other similarly situated families would continue to be responsible for budgeting for their own health care needs.

Finally, I would like to describe the direction in which public policy should go to reduce poverty. The Reagan administration is committed to helping welfare recipients obtain the job training and work experience necessary to obtain jobs and reap gains from working.

To this end, the administration has established several new programs.

First, we have promoted State use of job search programs for AFDC and food stamp applicants and recipients. Ten States already have established job search programs and an equal number are considering doing so.

Second, this administration established the Community Work Experience Program [CWEP] in which States have the option of requiring AFDC recipients to participate in a work experience program in return for their AFDC benefits. Twenty-two States now have these programs. CWEP provides an opportunity for welfare recipients who have never worked or have not worked for a long time to establish good work habits and gain experience that will help them to find and keep a job.

Finally, the administration is encouraging States to experiment with programs to divert welfare grants to wages. This "grant diversion" program permits a State to take the AFDC grant that would be paid to a family and use it to subsidize the wage of the family head for a limited period of time. Employers agree to hire the participant at full wages at the end of the subsidy period. This program provides training, work experience, and a guaranteed transition into a job.

In conclusion, Government assistance is essential to assure that those who generally cannot work or temporarily cannot find work are able to meet their basic needs. But public assistance should not be used as an alternative to work. We need strong work programs that prepare welfare recipients to enter the job market and a strong economy so that they can leave public assistance behind them.

[The prepared statement follows:]

Statement of Anthony J. Pellechio, Deputy Assistant Secretary for Income Security Policy, Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services

Mr. Chairman, I appreciate the opportunity to testify before this Subcommittee on the results of the recently completed GAO analysis of the impact of the 1981 AFDC changes. All too frequently critics charge that the Administration's welfare policy has but one goal: to achieve budgetary savings no matter what hardships are borne by the poor. This is simply untrue.

I want to make some points about the Administration's welfare policy in the context of the GAO study and then describe a path for responsible public policy for reducing poverty.

First, the 1981 AFDC changes and their impact have been exaggerated.

Second, the changes were long overdue.

Third, the GAO study provides further evidence of the efficacy of the Administration's reforms.

Fourth, the so-called "quality of life" criticisms are distorted and the research on which they are based is inconclusive.

Turning to my first point: while the 1981 AFDC changes were significant reforms, their impact was limited. According to the GAO report, after the implementation of these changes only 13.4 percent fewer cases were open in an average month compared to before the 1981 changes. Expenditures dropped even less, declining only 9.3 percent.

In a major assessment of Reagan Administration social policy, Nathan Glazer of Harvard University writes: "Less has happened, much less, in the realm of social policy than the amount of anger, resistance, agonizing, and newspaper reporting suggest." This comports with the point made by Richard Nathan of Princeton University that both liberals and conservatives tend to overstate the welfare changes—conservatives because they want to take credit for the changes and liberals because they want to prevent further changes.

My second point, the 1981 AFDC changes were long overdue. Many experts in social welfare do not take a negative view of the 1981 AFDC changes. Blanche Bernstein, former New York welfare director and currently on the faculty of the New School for Social Research, writes:

"In total magnitude of savings, the 1981 Amendments can hardly be regarded as a sea change, but do represent something of a major turn back to: (1) more traditional attitudes of family responsibility; (2) responsibility of the head of the family to work; (3) a more vigorous adherence to standards of need established by the States." Bernstein goes on to say that the 1981 AFDC changes can be regarded as reasonable changes that reflect the general consensus of the population.

Most Americans share the straightforward view that people in need should be eligible for public assistance and that the non-needy should not be eligible. The public is concerned about the long-term welfare dependency of families who have a parent capable of working. The phenomenon of long-term welfare dependency is exacerbated by generous earnings disregards. Rather than leaving welfare for work, recipients could choose to both work and receive a permanent income supplement from welfare.

Let me review the facts that faced this Administration when it came into office. In 1981, in every State families of four or more could have an adult working full-time at the minimum wage and remain on welfare. The GAO study reveals that in 4 of the study sites, the average earnings of families dropped from the rolls exceeded the amount earned for full-time work at the minimum wage. While these families lost their income supplement from AFDC, they may continue to be eligible for food stamps, subsidized school meals and housing benefits as well as for Medicaid in those States that have medically-needy programs.

Another disturbing fact in 1981 was that thousands of families with annual earnings above the poverty level received AFDC and benefits from other programs as well. In 15 States, families of four or more with incomes over $15,000 could remain on welfare indefinitely. Because the $30 plus one-third disregard provisions applied only to recipients, and not to applicants, families who had never relied on welfare could not receive assistance while other families of the same size with the same income received AFDC and automatic entitlement to Medicaid. Finally, the permanent wage supplement that AFDC provided was only available to families that met the AFDC categorical requirements. The AFDC program had become an expensive and inequitable system of income supplements. It is these facts which really hurt the poor by diminishing public support for welfare programs.

By 1981, it was clear that the disregard provisions had failed to achieve their intended purpose. In 1967, Congress enacted the provisions to encourage recipients to take jobs and leave the welfare rolls. Congress expected caseloads to decrease and program costs to decline. It gradually became obvious, however, that the earnings disregard provisions were not an effective incentive for recipients to work. The percentage of working AFDC mothers had remained constant at about 14% over the years between 1967 and 1981. Furthermore, welfare mothers were not moving any more vigorously toward self-sufficiency. The facts showed that in 1979 only about 8% of case closings were due to earnings compared to 33% in 1967. Instead of getting off the rolls, working recipients remained on the rolls, caseloads continued to increase, and the result was higher costs for the taxpayer. Research conducted by InterStudy between 1965 and 1972 found that the costs of the disregard to the taxpayer were at least ten times the savings.

The Administration's response to the situation in 1981 was to limit the $30 plus one-third disregard to the first four months of employment while retaining a modified version of the work expense and dependent care disregards. This enables recipients who find employment to have the benefit of a supplement for four months while they adjust to their positions as self-reliant earners.

My third point: the GAO study of the 1981 AFDC reforms adds to the body of studies that conclude that the reforms were well designed. The GAO study provides further proof that the reforms had only a minor effect on cases without earnings. Depending on the site, only one to twelve percent of non-earner cases were closed as a result of the reforms. From one to six percent of the cases received reduced benefits. Almost all of the affected non-earner families had stepparent income or children over the age of eighteen.

Following the passage of the 1981 AFDC reforms, which enacted the earnings disregard changes proposed by the Administration, critics complained that the four-month limit on the $30 and one-third disregard and related income changes (such as the gross income eligibility limit) would combine to create a serious work disincentive. It Was claimed that working recipients, once they lost their AFDC supplement, would quit their jobs and become completely dependent on welfare. They argued that the net effect of the reforms would be to increase rather than decrease the cost of the program.

The GAO study confirms what we learned last year from a nationally representative study conducted by the Research Triangle Institute (RTI) and from a Wisconsin study by staff at the Institute for Research on Poverty: that earners dropped from the rolls did not quit their jobs and return to AFDC. In fact, in three of the five GAO sites, the rate of return to welfare for earners who lost eligibility following the reforms was lower than the rate of retrun before the changes (in the other two sites, the rate of return did not change). In the GAO study, the rate of return to AFDC ranged from 15 to 18 percent, depending on the site. This is comparable to the 18 percent rate of return reported by the nationally representative RTI study.

The GAO study showed not only that the earners remained off the rolls, but also that their average monthly earnings increased substantially, indicating that many of them could and did increase their work effort afer losing AFDC. The average monthly earnings for those working increased at all five sites; the increase ranged from $71 to $233 (15 percent to 33 percent).

The GAO study found that those who were dropped from the AFDC rolls are relatively well-educated and have strong ties to the labor market. Depending on which of the five study sites one looks at, between one-half and three-quarters of those who lost AFDC had 12 or more years of education; in one site, nearly 30 percent had some college education. In addition, those who lost AFDC had worked for the same employer about three years on the average.

The status of the families who lost eligibility is perhaps indicated most graphically by looking at their earnings levels. As I stated at beginning of my testimony, in four of the five sites, the average arnings of families dropped from the rolls exceeded the amount earned for full-time work at the minimum wage. In three of the five sites, the average earnings of terminated families was more than $8,000 a year; in one site the average was almost $9,500.

In short, the GAO study shows that the 1981 AFDC changes were focused on recipients with earnings who has the means to achieve self-sufficiency. The families removed from the welfare rolls were like millions of others who, because of welfare rules, never qualified to receive public assistance. In fact, they even paid taxes to finance welfare payments to similar families with the same income. With serious inequities such as this one, public support for welfare programs is seriously eroded.

My fourth point: in the face of mounting evidence that the long-term effect of the reforms will be reduced dependence on welfare, Administration critics have shifted their focus from work incentives to develop a "quality of life" issue. The GAO study, however, does not yield conclusive results concerning the effect of the 1981 changes on recipients' quality of life.

I have serious concerns about the results on the so-called "quality of life" issue, especially in the area of the availability of medical care. The GAO study understates the proportion of affected families covered by Medicaid. In one of the study sites, GAO reports that Medicaid coverage rates for parents and children are actually lower than the proportion of families back on AFDC two years later. Because AFDC recipients are automatically eligible for Medicaid, the Medicaid coverage rates must be at least as high as the AFDC participation rates. Further, since four of the five sites are in States that provide Medicaid coverage for the medically needy, the proportion of children eligible for Medicaid should be substantially higher than the proportion of families receiving AFDC. This finding only materialized in the New York site.

The study suggests that persons who lost AFDC eligibility suffered from medical, vision, or dental problems that were not treated because of the expense. The study fails to identify the nature and severity of these conditions. Also, there is no information on the normal utilization of health care by these families before and after the AFDC changes.

More importantly, the GAO study does not provide any baseline data on utilization of health care by comparison groups. In particular, we do not know how many families in the general population postpone treatment of similar medical, vision, or dental problems because of the expense. Many low-income families do not have medical coverage as generous as that provided to welfare recipients through Medicaid. Rather, these families must budget carefully to pay for health insurance and other medical expenses.

I would like to point out that in 30 States, Medicaid is still available to many individuals who lose their AFDC eligibility. In these 30 States, families in need of medical care could apply and receive Medicaid services as "medically needy." This is a special eligibility group that States may choose to cover as part of their Medicaid programs for individuals who demonstrate medical need, but who cannot meet the financial requirements of the AFDC or SSI programs. Approximately 70 percent of those losing AFDC entitlement due to legislative changes in 1981, resided in these 30 States. Many families with income above the AFDC eligibility level have taken advantage of the medically needy option when they needed health services. We recognize, however, that some AFDC families probably did not know about the availability of medically needy coverage once AFDC benefits stop.

In addition to these optional Medicaid benefits, 37 States have "general assistance" programs which are funded entirely by the States to pay for medical services for specified indigent groups. Some of these groups include patients in State and local hospitals, the aged, foster children, and persons with catastrophic illnesses who normally cannot qualify for AFDC or SSI benefits or who need medical services that the regular Medicaid program does not cover. Like Medicaid, these State-only programs provide a variety of health services to their eligibles.

Other major sources of health care, particularly for low-income women and children, are services funded by the Public Health Service which are provided in community health centers and in clinics receiving monies as part of the Maternal and Child Health Block Grant. In FY 83, HHS spent $357 million on community health centers, which provided services to over 4.5 million low-income people, many of whom did not have insurance or Medicaid coverage. In the same year, $478 million was spent on maternal and child health through grants to the States.

To summarize, we question the findings of the GAO report that those families who lost AFDC eligibility now lack health care coverage. We believe that better outreach is needed to inform individuals about the availability of medically needy coverage under Medicaid, other public health services and private medical insurance, including coverage for children frequently available at low cost through absent parents' private insurance. It is not clear that persons losing AFDC eligibility are aware of the variety of health care options open to them.

Given the many other options available, making nominal AFDC payments to provide Medicaid coverage is a costly and unnecessary way to provide for health care needs. Singling out a select group to receive nominal AFDC benefits and Medicaid eligibility is especially unfair. It is likely that Medicaid coverage would displace other public and private health care alternatives for the select group covered, while other similarly situated families would continue to be responsible for budgeting for their own health care needs.

Now I would like to describe the direction in which public policy should go to reduce poverty. The most direct way to reduce welfare dependency for those who can work is through employment. The Reagan Administration is committed to helping welfare recipients obtain the job training and work experience necessary to obtain jobs and reap gains from working in the economy. To this end, the Administration has established several new programs.

First, we have promoted State use of job search programs for AFDC and food stamp applicants and recipients. As part of the Reagan program, Congress enacted legislation that permits States to require AFDC applicants to participate in job search programs, which motivate and train participants to secure jobs. Many States now require employable adults to participate in these programs. Ten States already have established job search programs and an equal number are considering doing so.

Second, this Administration established the Community Work Experience Program (CWEP) in which States have the option of requiring AFDC recipients to participate in a work experience program in return for receiving their grants. Twenty-two States now have these programs. Others have participated in similar demonstration programs for food stamp recipients. We believe CWEP provides an opportunity for welfare recipients who have never worked or who have been out of the labor market for a time to establish good work habits and gain work experience that will help them to find and keep a job.

Finally, the Administration is encouraging States to experiment with programs to divert welfare grants to wages—called "Grant Diversion." These programs permit a State to take the AFDC grant that would be paid to a family and use it to subsidize the wages of the family head for a limited period of time. Employers agree to hire the participant at full wages at the end of the subsidy period. This program provides training, work experience and a guaranteed transition into a job.

While the programs I have discussed are currently optional for the States, the Administration has proposed to make participation in job search programs mandatory for all AFDC applicants and recipients and to require all States to establish work experience programs (CWEP) for AFDC and food stamp recipients. We have also requested permanent authority to permit States to use grant diversion in place of the current authority that permits these programs only in conjunction with a demonstration.

SUMMARY

In conclusion, government assistance is essential to assure that those who generally cannot work to support themselves, or who temporarily cannot find work, are able to meet their basic needs. But for people capable of working, government aid should not substitute for jobs. The President's first priority always has been to strengthen the economy so that jobs and advancement opportunities are plentiful. For welfare recipients, we need strong work programs that prepare recipients both to enter the job market and to become self-supporting.

Chairman FORD. Thank you very much, Mr. Secretary. The chairman would like to ask a few questions at this point and then will recognize the other committee members.

You said that it is unfair to suggest that the administration's only goal is to reduce welfare expenditures regardless of how the poor are hurt. In the past 3 years has the administration proposed any significant program enhancements which would assure these low-income families of adequate income and health benefits that you can recall?

Mr. PELLECHIO. Well, I mentioned the work programs that have been put forward by the administration. Also a consequence of——

Chairman FORD. I mean that would directly respond to some of the questions that have been raised by GAO in some of the problem areas that we know exist, even with your testimony showing the cost of the cuts in 1981, that everything is fine, and there is no one being hurt out there, that what we are doing now, the administration is for some of these AFDC recipients who might have had part-time jobs or worked partially, now they have been forced to go out and get a job that pays whatever amount of money that would be needed to respond to the income level that the family would need, but can you point to any of these program enhancements that the administration has proposed in the past 3 years?

Mr. PELLECHIO. I could point to some consequences of the reforms in 1981. One is that with the savings from the reforms, over half of the States have increased their benefit levels, and that was a purpose of those reforms, that the benefit levels be targeted on people who cannot help themselves and that those benefits be adequate, that permanent income supplements be diverted into enhanced benefits for people who really could not work, they had young children to take care of, or they needed education or employment experience before finding a job. So I think that the benefit increases that we have seen since 1981 are enhancements that result from a Federal-State cooperation.

Chairman FORD. Even though the earned income might have increased but the total income of the family according to a study that has been conducted by GAO, there has been a significant decrease, there has been a loss of other programs and services provided to these families. Would you respond to that?

Mr. PELLECHIO. Yes.

Chairman FORD. How the administration planned to——

Mr. PELLECHIO. I think you have to start first with how much you can rely on those income numbers. The first thing I would like to point out——

Chairman FORD. Do you have some different numbers? We will take yours and use them. Do you have some others?

Mr. PELLECHIO. I can make some points, and can supply an analysis or numbers in a written response. I do not have them at my fingertips. But from the CPS surveys that are done every year of the population, there is significant underreporting of public assistance income. In Medicaid, for example, you have underreporting that is on the order of 50 percent. I hesitated because one of the things the CPS survey indicates is that people in institutions are not interviewed, so that underreporting figure is higher than I think it should be, but it is still substantial. The underreporting figure in food stamps is on the order of 25 percent. In the low income energy assistance program, underreporting again is close to 50 percent.

The GAO study just gathered income from a survey of a particular group of people. They made no effort extrinsic from the survey to check those numbers, so I am concerned about underreporting in that survey.

Another point I think has been made before, and that is it is difficult to describe the economic situation of these people as necessarily different from people who are in the same circumstances but had not been recipients of AFDC. This is the issue of not having a comparison group, and of course folded into that is the effect of the macroeconomy on employment and earnings of the entire population relative to this group, so I do not think you have anything other than income numbers from a survey that have not been checked against other sources. Where underreporting has been shown to be a persistent problem——

Chairman FORD. How do you respond to the 1 million children who according to GAO are no longer with Medicaid or health care coverage?

Mr. PELLECHIO. I would repeat just from that anomalous result in Dallas that their Medicaid coverage is underreported. That, in four of the five States, there is a medically needy program, and those States cover 70 percent of the AFDC population. That, in addition to the medically needy program, there are community health centers sponsored, run by the Public Health Service, so I would respond that——

Chairman FORD. Are you not familiar with reconciliation, though, that in all of the programs that you are talking about, community health centers, were also cut? We have not expanded any of our health care delivery systems from the Federal perspective. You know all of these programs were cut in 1981. You are saying that they are out there, but the same Reagan administration in the reconciliation of 1981 proposed those cuts and he was successful in receiving those cuts, in block grants competing for all of the funds as well.

Mr. PELLECHIO. Services are being delivered in these programs. The spending is still substantial in these programs.

Chairman FORD. There was an increased number of people who were in need, and at the same time in 1981 when the cuts took place that affected the working mothers of AFDC, the other programs that you have made mention of were also cut.

Mr. PELLECHIO. I am not able to make a comparison between spending in programs before and after the cuts. I think there has been a reallocation of spending from the Federal Government to the State government. That is why I said that any extension of Medicaid coverage to a special group of people, those who had been cut off by OBRA, would just displace State expenditures and private expenditures, like the private health insurance that these people are getting from their employment. I really think it is a displacement issue. One proposal that the administration has been pushing is in the child support area and that is to attach to the child support orders a requirement that the absent parent, if his job or her job carries health insurance, include the kids under that policy. There are a lot of alternatives out there. I see a layered system, where the layers serve the purpose of partitioning out need, from the greatest need to the least need, and providing the assistance that is appropriate.

I think the Federal-State cooperation has worked well to take care of people who have been affected by the OBRA changes, and that the States are closer to these people and are better able to determine need.

If any individual shows up at a hospital, forgetting whether they are low income or high income, the first thing that happens if there is an emergency, if there is a serious medical problem, is that they are taken care of, and then hospital admission will seek whatever means of payment that is needed.

Chairman FORD. I will not respond to that one. Mr. Secretary, people who are living below poverty, do you consider them to be in need, children for health benefits under Medicaid or AFDC benefits, or in need in general?

Mr. PELLECHIO. People on the AFDC Program or food stamps or Medicaid are in need by the categorical definition.

Chairman FORD. People who are living below poverty, do you consider them being in need?

Mr. PELLECHIO. Under State poverty levels?

Chairman FORD. Under the poverty level, people who are living below the poverty line, and I think the poverty-line level that we are speaking of under the current HHS poverty level for a family of three is $705 per month. Why do we not just take your own and use those and respond to that.

Mr. PELLECHIO. OK. People under the poverty level, are they in need? It is a sweeping question. I guess I have a difficult time answering because I do not know what you mean by "in need." Do they need more money from the Federal Government? Is their income defined properly for comparison with this level?

Chairman FORD. We are talking about the quality of life. I know that the administration has been somewhat insensitive to the poor of this Nation, but I certainly did not think that we would hear one of the Secretaries coming before this committee having problems and difficulty in defining the needs of quality of life. I mean the same needs and the quality of life that you enjoy and others who just happen not to fall in that poverty level or below the poverty level, I am just speaking of.

Mr. PELLECHIO. I guess my answer, if I have to respond at this general level, is that people in need, whether they are below the poverty level or above it, have Federal and State services available to improve their quality of life. In some cases it is a matter of getting people who have been outside the economy, outside the labor force, the skills that they need to get back into it. It is a slow, laborious process. Sometimes it takes on a case study aspect rather than looking at aggregate benefit levels or poverty lines. It is a task that the administration has emphasized, and it has the long-term effect of reducing welfare dependency.

Chairman Ford. Mr. Secretary, do you really believe that in 1981 AFDC cuts were needed because poor people were choosing to remain in these low-paying jobs, in order to continue on the AFDC rolls?

Mr. Pellechio. The GAO result——

Chairman Ford. You said it on page 3, you implied that in your testimony here on page 3. "Rather than leaving welfare for work, recipients could choose to both work and receive permanent income supplements from welfare."

Mr. Pellechio. The GAO results showed that people did give up their welfare benefit, and increase earnings to offset that.

Chairman Ford. Or is that a sign that they wanted to show that they wanted to remain within the work force itself, that they did not and do not want to be on the welfare rolls, but want to leave the welfare rolls and go into the work force, but you imply, like these people who were drawing both, and all of a sudden now some of them that are cut off, they have gone on to enjoy these $15, $20, $30 or $40,000 jobs but they only hung around because they could enjoy both. Is that what you are telling this committee today?

Mr. Pellechio. I think some people got accustomed to a long-term supplement from AFDC. When the earnings disregard was limited to 4 months, and when the 150-percent rule was applied, they lost that supplement, and earnings in most cases, using the averages, went up to compensate for that. It looks like they had a choice between continuing with the supplement or increasing their earnings, and when the changes were made, they increased their earnings.

Chairman Ford. The 493,000 families or the half million families that GAO is talking about, I mean what happens here? In your testimony you have implied and what you are trying to suggest—where are these people that you are talking about, Mr. Secretary?

Mr. Pellechio. Where are——

Chairman Ford. Yes. I do not think GAO could find any of these people.

Mr. Pellechio. I am losing track.

Chairman Ford. You are suggesting to us that AFDC recipients wanted to be partially employed, but under the reconciliation the minute you removed those health care benefits they immediately walked into the work force, and identified jobs that pay way beyond the minimum wage, and therefore they just hung around on the welfare rolls, AFDC rolls, only because it was better for them.

Mr. Pellechio. You could not look at averages. You would have to look at each case record and see if there are any examples.

Chairman Ford. I am asking now have you looked at all of these case records?

Mr. Pellechio. No. I do not think we have any information in the report that can help us do that, even indirectly. I find the report rather wanting in technical details, to be perfectly honest with you. I would appreciate a distribution as was brought up in some of the questioning before. We do not know if some of the people are coming from an income bracket above $15,000. It was certainly possible in 1981 that that was the case in 15 States, and it is possible that it is in this survey.

Chairman Ford. Mr. Secretary, the Reagan administration has claimed that its 1981 AFDC reductions were targeted to the working poor, and implied that these families were not among the "truly needy" because they were working. Now according to GAO, which has testified already, it has found that many of these families terminated from AFDC were well below the poverty level after the 1981 reconciliation budget cuts. This ranged from a high of 85 percent in my hometown in Memphis, TN. to a low of 28 percent with families in Milwaukee. Does the Reagan administration really believe that families with income below the poverty level should be ineligible? I raise that once again, but I just want to make sure. Does the Reagan administration really feel that these families who are living below poverty should be ineligible for the AFDC as well as the medicaid benefits? Is that the official position of this administration?

Mr. Pellechio. In 1981 in all States, using their poverty level, the combination of AFDC and food stamps does not bring income, if there is no other income, over the poverty level. So you have to ask whether these programs are designed to bring people over the poverty level.

Also the benefit levels in the AFDC program are State-determined. These two programs are not the only programs that are available, even at the Federal level. There are State programs. I think the position of this administration on the AFDC program is that its major purpose is to help people who cannot help themselves, who cannot work, because they are taking care of young kids. If people can work, the responsibility is to move off the welfare rolls, and I think the 4-month limitation on the disregard is to help people in that transition to make an adjustment from an AFDC benefit to not having an AFDC benefit. The program is designed to help people who cannot help themselves, and when you can make a leap from that position—that categorical definition of the program—which is what it is, to a poverty level that varies by States, who vary their benefit levels, it is I think a hard connection or leap to make.

Chairman Ford. With the information provided to us by GAO, the question once again. The 493,000 families we are talking about, the 1 million children, or approximately, that have been affected by it.

Mr. Pellechio. Right.

Chairman Ford. Other members of this committee have already sought additional information from GAO, but with the data that is before us today, is this the administration's official position, or what is the official position of the administration? Should we respond, or should those families with incomes below the poverty line, should they remain ineligible for AFDC, or the medicaid benefits for the children?

Mr. Pellechio. The response is not simply one of Federal policy. States have medically needy programs. They are responding to loss of eligibility for AFDC. The response is that it is a combination of Federal and State responsibilities, and the programs are out there, as I said, in a layered way that help determine need in the best way possible, with the closest connection between State standards and the circumstances of the individual, and I think the response is that yes, these children's medical needs need to be met, and we have a mechanism, a system out there. The Federal Government is not the only government in our country, that is there in place to meet these needs.

Chairman **Ford**. But where the States cannot pick up all of the needs, what do you suggest? What should be the administration's position as it relates to those who will not have those health care benefits through medicaid or some State health program?

Mr. **Pellechio**. I pay close attention to studies done in States, on their response to OBRA. I think you would have to look at any reason for the State not meeting needs, and find out what the appropriate response is. It is hard for me to make a sweeping statement at a Federal level, when we have a combined system of Federal and State programs. You have to look at the circumstances, and find where the dividing line is between appropriate Federal and State response.

Chairman **Ford**. But it is difficult for me to believe that you would come before this committee today, and say to us that we are going to shift that responsibility to the States, when we know that it was this administration that proposed in the reconciliation of 1981 that the Federal Government change the rules on how the 493,000 families that are reflected in this GAO study have lost this medicaid benefits. Now you suggest today that the States should pick up that slack because of a change in the rules that were made by the Federal Government. It is difficult for me to believe that that is the position that the administration would want to take or would like to take at this time.

Mr. **Pellechio**. I do not know if my position is being interpreted correctly.

Chairman **Ford**. You indicated earlier that the States have all implemented, you have been monitoring certain States and many States have already implemented some type or kind of program that would in fact respond to the needs, the health care needs of these children or of these families that have been affected by the changes made in 1981. I had raised the question that it is difficult for me to believe, as chairman of this committee, that you would come before this committee and suggest that the States should pick up that financial responsibility, when it was a change in the Federal rules that caused the 493,000 families that were mentioned in the GAO report, to have lost their medicaid or health care benefits, and over 1 million children. I said to you, well, I raised a question to you whether or not the administration had an unofficial position as it relates to the health care benefits to those 1 million children. You indicated to the committee that you felt that you had monitored States, and States are now implementing certain programs that the Federal Government has already implemented that will respond to some of these health care needs.

Mr. **Pellechio**. We do have proposals in the child support area to use existing private health coverage of parents to cover children that may be in this population, and the work experience programs that we were proposing are designed to get people into jobs that provide health coverage. I think the grant diversion program is a particularly creative way to do that, by subsidizing wages in jobs where private health insurance may be provided, and at the end of the subsidy period, guaranting a transition to a job with full wages and benefits.

I do not think we have anything other than the right course on this issue to promote employment and coverage under health policies that the States provide, or through jobs that they can attain.

Chairman **Ford**. What is the administration's most recent estimate on the total AFDC savings due to the 1981 reconciliation cuts?

Mr. **Pellechio**. I do not know offhand. I know the original estimate——

Chairman **Ford**. We will be happy to hear from staff if you have some staff here from HHS.

Mr. **Pellechio**. We will have to provide it in a written response. I know that the original estimate was around $1 billion, and in 1982 the actual receipts that were coming in were showing a savings of below that, of about $700 million.

Chairman **Ford**. The Chair at this time will recognize Mr. Campbell. The Chair would like to come back with additional questions, but if you have information with regard to the last question that I just raised on those figures, I will be happy to hear that at this time. It is not?

Mr. **Pellechio**. No. This does not have figures on the savings. They were just some particular points along the lines of what I was saying before, that six States are considering adding medically needy programs to cover pregnant women and children. Thirty-seven States have general assistance programs providing medical care, and also we pay for Medicaid costs at an average of 54 percent.

Chairman **Ford**. Mr. Campbell.

Mr. **Campbell**. Thank you, Mr. Chairman.

Is it your interpretation of AFDC that it is supposed to be a permanent program for people or a temporary program, to help them over a difficult time, or to help them into the work force?

Mr. **Pellechio**. The purpose of the program is to provide temporary support for people who cannot help themselves. The reality is that some people stay on for a long time. Before the OBRA cuts there were people who were working, and as the GAO study shows could increase their earnings and forgo the supplement. For the people who are not working and on the rolls for a long time, you have a problem that needs to be addressed through work programs. My office conducted a study to examine the reasons for getting on and off the welfare rolls, and what the personal characteristics were of recipients who stayed on the rolls for a long time. We were able to pick up some correlates of long-term recipiency to help us identify those cases at the beginning of their AFDC participation, and the hope is that some interventions can be targeted on those groups, so that their stay on AFDC would be shorter than you might expect, without the interventions. So the program is intended to be short-term. The reality is that some people are on for a long time who cannot find work, and that those cases should be helped with work programs to provide the education or the work experience that will help them get off the rolls.

Mr. **Campbell**. Is it not true that prior to the 1981 OBRA, if a person working in a family of four, say roughly 28 hours a week, were to work 36 hours a week at a wage of about $4 they could find themselves ineligible for AFDC, but by working 28 hours they could stay eligible and earn more money?

Mr. PELLECHIO. If that person started working after they applied for AFDC, I think you can construct an example where at a certain wage an increase in hours of work from 28 to 36 would make them ineligible for AFDC, because of the 30⅓——

Mr. CAMPBELL. Under that circumstance a person would have an incentive not to work the additional hours and earn the additional money, because it would cost them more to do so than they would earn; is that correct? Is that a correct assumption?

Mr. PELLECHIO. I imagine that if you add other benefits that are being received along with AFDC, and the loss of those benefits if AFDC is lost, that even though in terms of actual wages or actual dollars that a person might be earning additional dollar income, that there might be a loss in benefits in the total package.

Mr. CAMPBELL. Let us say that that is a disincentive then for additional work. One of those benefits is health coverage, and a person is concerned about losing that coverage for their family and their two children. You have stated that there are State programs, but my concern is that these people may not be aware of those State programs, No. 1; and it seems to me that it would be a greater incentive for a person to go back to work, or to work those additional hours, to move off of the AFDC, if in fact we had a transition type of eligibility that was long enough to keep them under the health coverage so that it would not be a disincentive. Would you disagree with that?

Mr. PELLECHIO. No, I would not disagree with that, and I think the 4-month limit on 30⅓ is there to ease that transition. I think your first point is entirely true. I said that GAO report understated Medicaid coverage in part because people realized they had Medicaid coverage only when they have a medical need and do not have the resources to pay for it. The underreporting rates in the census survey strongly indicates that people are not aware of their eligibility because they are not receiving benefits. So I think more outreach is needed.

Mr. CAMPBELL. Is this something that would call for an educational program to assist, if there are things available?

Mr. PELLECHIO. By the welfare office.

Mr. CAMPBELL. By the welfare office?

Mr. PELLECHIO. Yes. I think that a welfare office should try to identify people who might be going off the rolls because of the 4-month limit, and inform them of programs beyond AFDC that provide medical coverage.

Mr. CAMPBELL. And of all other available medical coverage that is in a State?

Mr. PELLECHIO. Yes.

Mr. CAMPBELL. Under a State program?

Mr. PELLECHIO. Whatever possibility there is for health coverage.

Mr. CAMPBELL. How many States have that type of program?

Mr. PELLECHIO. Thirty States have a medically needy program, and 37 States have general assistance programs for providing medical care.

Mr. CAMPBELL. Have you done anything? Have you looked at these numbers to determine whether those people would be eligible under States' programs or how many of their programs they would be eligible under?

Mr. PELLECHIO. The people in the GAO study?

Mr. CAMPBELL. Yes.

Mr. PELLECHIO. We do not have the case records or the survey records to answer that.

Mr. CAMPBELL. Perhaps we can get GAO when they do their additional study.

Mr. PELLECHIO. We would be delighted to have their data. We have asked for their data. We were not given their data. We were not consulted while this study was being conducted. We were expressly not to be included.

Mr. CAMPBELL. I will restate it not as a question. My concern is that we not have people fall through the cracks on medical coverage while they are trying to make a transition back into the full-time work force, and if that needs strengthening then I am willing to try to strengthen it. That is a great concern of mine. I do not want it to be a disincentive for people to go back into full-time employment.

Chairman FORD. Would you yield just for a moment?

Mr. CAMPBELL. Certainly, I will be glad to yield.

Chairman FORD. Mr. Campbell, before some of the GAO officials leave the room, the Secretary has indicated that they were not consulted. I just want to hear from GAO at this particular point. I understand that they were consulted, but you are saying that they were not. I want to verify that through GAO since they are still here in the room.

Mr. HEDRICK. Yes, we did meet early on at the beginning of the study, and in fact solicited both information and suggestions as to how the study might be conducted.

Mr. CAMPBELL. Have you provided them with the data that you have, your raw data?

Mr. HEDRICK. No. Our broad data have individual identifiers on and all kind of information that would have to be stripped.

Chairman FORD. But they were consulted; is that correct?

Mr. HEDRICK. Yes.

Mr. CAMPBELL. Not with the raw data, that is the main thing. They did not have a chance to take the raw data and analyze it, the bar charts, curves, and anything else, is that not right?

Mr. PELLECHIO. We did not see the data as you say. We did not have a chance to comment on the survey instrument, and I think a lot of program experts would have been careful about———

Mr. CAMPBELL. Let me stop you there. Our time is just a little bit limited and my time is limited and Mr. Pease will have questions. I understand that and I hope you get the data and I hope you look at it, analyze it, and we can have the benefit of the expertise of everybody concerned.

Chairman FORD. Mr. Campbell, I think basically, and GAO can speak for themselves, but I think they were pulling in certain information so I guess the cases, the persons, the individuals could not be identified.

Mr. PELLECHIO. That is right.

Mr. CAMPBELL. I have no problems with individuals, but they can pull raw numbers and give raw data numbers in the categories. They have already done that for some of theirs.

Mr. PELLECHIO. Individual identifiers are not needed.

Mr. CAMPBELL. You do not need any of the individual identifiers for that.

Mr. PELLECHIO. For examining your question.

Mr. CAMPBELL. There were several other things that I had some concern about, and of course we have seen several studies all indicating that most of the people have gone back to work. We have heard a lot of questions and testimony about what happened to the families and how they came out of this. I am looking at the GAO study on page 43. I am looking at the families in the study, how they came out, and one question was do they eat better or not? I noticed that approximately 66 percent say they eat about the same or better than they did, which means that about 34 percent are saying that they are worse off. I see then, roughly, we have about two-thirds that were the same or better in that. I am talking of the quality-of-life sort of issue, basic issues there. That is in the GAO study.

Now as I look through the study some more, I find different things. Some of the data conflict, and we do not know why. You might find, for instance, that in some areas people had electricity shut off. In other areas they did not. We do not know whether there are State laws there that say you can or cannot cut off electricity for nonpayment, that sort of thing, because maybe they had gas shut off and not electricity, and we do not have that. But I do look at the food and what people were getting there.

I also looked a while ago at some of the other information in the study, and I was looking at the table 19 on hours worked. We discussed this with GAO. The earnings increased substantially, and yet when you really look at the hours worked, they did not. They increased a little bit, and none of them are working in the overtime area, on the average. The average does not put overtime or excessive work or an excessive amount of time away from home or anything like that, on the average.

Would your conclusion be that in the economic recovery, given the fact that across the board everybody is working less than 40 hours, that as the economy has improved, and the manufacturing and work hours have gone up and so forth, that the opportunity for additional earnings would apply in this group just as it would in any other group?

Mr. PELLECHIO. We do not have a comparison group. It certainly appears that earnings increased for people who stayed on the same job. Also, you could have people switching jobs. Their hours do not change very much, but they switch into a job with higher earnings. I do not know if we have information on job change, but a job change to a higher salary would be one of the benefits that can be realized from a better economy, more choice in the labor market.

Mr. CAMPBELL. Let me ask you this. I am concerned about the quality of life and that sort of thing. I do not want there to be anybody that is hungry or cannot get medical care or the basic things in life. We heard about poverty, and we were concerned about people below the poverty line, and they used your figures. Is that not a relative situation according to the cost-of-living coverages or purchases in given parts of the country or in various areas? In other words if you are going to say OK, the national poverty line is X, is that not relative to Y, Y being a change in number for each State?

Mr. PELLECHIO. Yes, there are poverty levels adjusted for each State.

Mr. CAMPBELL. That was not the way I understood the question. We used your numbers. We said OK, we are going to use your numbers for a family of three, $705.

Mr. PELLECHIO. Right.

Mr. CAMPBELL. That gets you up to $8,500 a year. Are you concerned about people below the poverty line—you had some hesitancy about answering that.

Mr. PELLECHIO. Right.

Mr. CAMPBELL. Would that not be that a family in one part of the country literally may have a tough time living in another part of the country having it a lot better because of the cost of living?

Mr. PELLECHIO. Yes. That is why I hesitated in answering your question about using the national——

Mr. CAMPBELL. So you really could not answer the question. It was not the position of the administration or anything else. It was, for example that if they had been living in my State, in my particular city where the housing cost is less than half of what it is in northern Virginia or the District of Columbia, then in fact their standard of living would have been better than it would here?

Mr. PELLECHIO. Yes.

Mr. CAMPBELL. OK?

Mr. PELLECHIO. That is right. I find it very hard to gather much information——

Mr. CAMPBELL. I am concerned about people below the poverty level, but I just want to make sure. If you answered that question and said that you were not concerned about the people below the poverty level using the cost of living and so forth in my State, then I am going to disagree with you.

Mr. PELLECHIO. No.

Mr. CAMPBELL. But I do not think you can do it across the board, and I do not want to leave that misconception.

Mr. PELLECHIO. No.

Mr. CAMPBELL. As I look at this I find that these numbers are extremely interesting as you go through them, and we have talked about people at minimum wage and so forth. I look at the average monthly earnings again, and I look at the average hours worked, and taking the whole thing, we find out that our average hours worked are somewhere in the neighborhood of a 33 from your whole sample, 33 point something; if you have average hours worked for about 33 point something from your working group, and your average monthly earnings at the lowest level are $529 a month, and the highest level is $1,000 a month, surely we are not talking about minimum wage. Is that a fair assumption, of this working group? I am looking at appendix 3 again, average monthly earnings before and after, and the after figure in Boston is $933 a month, $650 Dallas, $529 Memphis, $1,000 Milwaukee, and $846 in

Syracuse. I am taking your end figures and taking your whole sample together.

Mr. PEASE. Would the gentleman yield?

Mr. CAMPBELL. Just as soon as I get this point, and then I will be glad to yield to this gentleman.

Mr. PEASE. On this point.

Mr. CAMPBELL. Sure, go ahead.

Mr. PEASE. If I can mention on table 19, it indicates the average wage before and after the study. You do not have to go through that division.

Mr. CAMPBELL. That is right, it does it over here too, $5.83 in Boston, $6 in Milwaukee, $5.01 in Syracuse, $4.52 in Memphis, and $4.60 in Dallas. That is in appendix 3.

The point I am making is that even at the bottom, though we are close to minimum wage, we are not talking about minimum wage, and for somebody to come out and say we are talking about everybody on minimum wage and so forth, we are not. We are talking about people at $6 an hour, in some areas that is substantially above minimum wage for this country, but there again you have to qualify that by saying it is relative to what their costs are in a particular or given area. But we cannot make a blanket statement from here and say that all these people are minimum-wage and they are being pushed over and so forth. They are not.

Mr. PELLECHIO. No.

Mr. CAMPBELL. They are not.

Mr. PELLECHIO. No.

Mr. CAMPBELL. And I think we ought to make that very clear. I appreciate very much your testimony. I would like to ask you two quick questions about what evidence you can cite that AFDC recipients did not quit their jobs as a result of the 1981 AFDC changes.

Mr. PELLECHIO. Well, some reference has been made already to the Research Triangle Institute study which was a national representative sample that showed a return rate of 18 percent. That falls right in the range that GAO found. Also in Wisconsin a study was done of Wisconsin AFDC recipients who were dropped from the rolls.

Mr. CAMPBELL. That was a State study?

Mr. PELLECHIO. That was a State study. Over three-quarters of the people dropped from the rolls were working I think 13 months to 17 months since they were dropped from the rolls, and their earnings increased from 10 to 17 percent. There is a study from New York State that I do not think people are largely aware of, excuse me, New York City. In that study they identified the three samples, a comparison sample for the purpose of having a control group, a sample of people who were dropped from the rolls because of the 30 and a third limitation, and a sample of people who were cut off because of the 150-percent rule. They found that, for the 30 and a third sample, the return rate was almost exactly the same as in a comparison group. So no large return to the rolls, no quitting of jobs to return to AFDC. And in the 150-percent sample, the return rate was lower than in the comparison group.

Those are the studies that I can think of on the spur of the moment.

Mr. **Campbell**. You said earlier, and I will ask you this one more time to make sure I heard it correctly, that the studies show, and it has been testified to by the GAO people at this point, that in fact people at this point did go to work. They did not drop out of work to go back to be on welfare to protect their welfare. In fact, they did increase their earnings, and you were asked what other positive results might have come out of that, and I understood you to say that because of the changes, more than half the States had been able to increase the benefits that they give to the poorest people that are not able to do this?

Mr. **Pellechio**. That is right.

Mr. **Campbell**. That is positive.

Mr. **Pellechio**. That is right.

Mr. **Campbell**. Thank you.

Chairman **Ford**. The Chair will recognize Mr. Pease, but before that, Mr. Secretary, the staff has just passed to me some background material showing the median State benefit level in 1980 was $423, and in 1983 is $368. There has been a decline, a reduction in those dollar amounts, so even though you mentioned the fact that some 20 States have increased, we see that the median State benefit level from 1980 to 1983 has declined.

Mr. **Pellechio**. The question is?

Chairman **Ford**. You implied that some 20 States had raised those benefit levels, but we can see that from 1980 to 1983, over this period of time in which we are talking about, the median benefit level has declined.

Mr. **Pellechio**. Some States have not increased the benefit levels in nominal terms, and because of inflation there is an erosion of the real value of those benefits, the purchasing power. The slowdown in the rate of inflation has reduced the decline in real benefits that was experienced in the 10 years before.

Also with the erosion in real benefits in AFDC, you had an expansion of in-kind benefits.

Chairman **Ford**. But I think from 1970 to 1984 we can see that all States in constant dollars have declined, Mr. Secretary, and staff has shown me, we have a list of all States that are involved here, in constant dollars we see that every State——

Mr. **Pellechio**. States have not been able to keep up entirely with the rate of inflation. I think the savings that were realized by the 1981 reforms helped at least slow the trend, the drop in real benefits. I think that is an accomplishment, that they have only gone down in real terms by about 6 percent.

Chairman **Ford**. But even though those States that you made mention of might have raised or increased their benefit level, in constant dollars we have not seen any increase in this period of time. I mean when we look at all of the States, and see that those who have raised their benefit levels in constant dollars, we have not seen any significant change or changes at all.

Mr. **Pellechio**. But the real value of benefits in programs that AFDC recipients are also eligible for have gone up a great deal. Food stamps expanded. I think the increase in the food stamp expenditures was 350 percent over the 1970's, so you saw an expansion of in-kind or noncash benefits.

Chairman FORD. We have seen a decline in the last 3 years in the program to what degree?

Mr. PELLECHIO. In food stamps?

Chairman FORD. Yes.

Mr. PELLECHIO. Well, in food stamps——

Chairman FORD. After normal growth, inflation or whatever, what have we seen by way of decline in food stamps?

Mr. PELLECHIO. I believe the real benefit from food stamps have gone up or stayed constant. I am recalling numbers a while ago that we had to prepare I believe for a hearing. It is not a program that we administer in the Department of Health and Human Services.

Chairman FORD. Nor do we have jurisdiction here.

Mr. PELLECHIO. I know that average real benefits in food stamps went up. That could be a result of the loss of low benefits to earners in the food stamp program, because of the eligibility rule being changed to 130 percent of the poverty level, so I do not want to quote an average real benefit that has gone up.

Chairman FORD. 130 percent.

Mr. PELLECHIO. 130 percent, yes, but I believe food stamp benefits, if you avoid that problem of taking an average before and after OBRA, have at least stayed the same in real terms. Also the participation in the program in 1980 to 1982 went up from 19 million to 22 million families. I believe that a major reason for that was the recession, so the program was meeting its purpose of providing people with assistance during economic downturns, and that real benefits were maintained.

Chairman FORD. The dollar expenditure has gone down. I guess that would reflect some of what you have just said.

Mr. PELLECHIO. The dollar expenditure?

Chairman FORD. Dealing with the food stamp expenditures, 1981 and 1982, I see right here on the chart, it was $10,633, I am sorry, $10,633 million and in 1982 in dollar amount expenditures, it was $10,351 million.

Mr. PELLECHIO. I know that one problem we had in constructing comparable figures between 1980 and 1982, and I do not know it applies to your years, is that the Food Stamp Program in Puerto Rico was converted into a block grant. When it was a categorical program in Puerto Rico, the Puerto Rico expenditures are included, and then dropped afterward, so I would want to check the comparability of the States and territories that are included. I know that was a problem that we had. In other words, excluding Puerto Rico, food stamp expenditures did go up.

Chairman FORD. Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman. I would first like to commend the chairman for having this hearing, and commend the GAO for its study, and while I am at it, to commend the ranking member from South Carolina for his obvious genuine sincere concern for people in trying to get to the bottom line of these studies.

Turning to Mr. Pellechio, is it Dr. Pellechio? Are you a Ph.D.?

Mr. PELLECHIO. Yes, sir.

Mr. PEASE. I just want to establish that for the record so that all the nasty things that Mr. Stark said before about the previous witness would apply to Dr. Pellechio as well.

Mr. **Pellechio**. I would not want it any other way. I look at it as a union card to do research and hold teaching jobs at colleges and universities.

Mr. **Pease**. I am not one at all to depreciate a Ph.D. I just wanted to allow you to be in the same boat as the previous witness. I was interested in your testimony where you say "all too frequently critics charged that the administration's welfare policy has but one goal, to achieve budgetary savings no matter what hardships are borne by the poor."

I am just wondering whether that statement is one of argument. Clearly, the administration's welfare policy does not have as its only goal making budgetary savings no matter what the hardships are, but is it one of the goals? Is one of the goals of the administration welfare policy to achieve budgetary savings?

Mr. **Pellechio**. I think a goal is to achieve budgetary savings across the entire budget in a way that is least difficult as possible, and in the area that I cover, I think that was done rather well. The reforms were very well targeted, and well designed, and I think the GAO study corroborates the fact that people were dropped off at the high end of the income distribution in the AFDC Program. Budgetary savings are needed across the entire budget, and changes were made in AFDC to reflect that.

Mr. **Pease**. On page 2 of your testimony, you make the point that only 13.4 percent fewer cases were open on an average month after the 1981 changes than before, and the expenditures dropped even less, declining only 9.3 percent. Does the percentage figure for expenditures reflect an adjustment for inflation? In other words, are you talking about real dollars, real expenditures having dropped by only 9.3 percent, or would those been nominal?

Mr. **Pellechio**. I was citing the GAO study, and I just want to turn to my distinguished colleague and ask if they were adjusted for inflation.

Mr. **Hedrick**. On the caseload?

Mr. **Pease**. No; on the expenditures.

Mr. **Hedrick**. On the expenditures, no. Those are current dollars.

Mr. **Pellechio**. I guess the 9.3 percent reflects a reduction of real benefits, to answer your question.

Mr. **Pease**. You indicated that 20 States have increased benefits since 1981.

Mr. **Pellechio**. I have forgotten the exact number. It is over 20. Tom, do you know how many States have increased their benefits since 1981? It is close to 30. We will provide it for the record.

[The information follows:

From October 1981 through May 1984, 34 States increased their payment standards.

Mr. **Pease**. And you indicated that they were able to do that because of the money they saved through the 1981 AFDC cuts, right?

Mr. **Pellechio**. Yes.

Mr. **Pease**. Program changes.

Mr. **Pellechio**. Yes; the savings for the Federal Government that we cite are for the Federal Government, and because of the matching there were associated State savings that could be used to increase the basic benefit level.

Mr. **Pease**. Assuming that roughly half the States did increase their benefits, that also would mean that half the States did not; is that correct?

Mr. **Pellechio**. Yes.

Mr. **Pease**. So that the people who happened to live in the half of the States that have not increased benefits have had no increase in 3 years now, desite inflation. Some people would probably suggest that the States that have increased benefits have done so primarily to make up for cuts in Federal programs. Is that true?

Mr. **Pellechio**. I think there were responses in State programs to the changes that were made in 1981. I would think first of greater use of the medically needy program, and also point out that in the AFDC Program it is not the only program available for assistance to people in need. States have not only medically needy program but general assistance programs. I think State resources were reallocated in a variety of ways to meet some of the needs of the changes in 1981, and also the recession. I think a lot of the hardship that we saw in some of these studies had to do with the severe recession.

Mr. **Pease**. What about the central finding of the GAO study, that in the five cities that the GAO looked at, the average monthly income loss for working single families who lost eligibility was anywhere from $229 in Dallas to a low of $115 in Boston? Do you accept that? Do you accept the validity of those figures?

Mr. **Pellechio**. I accept the figures as a result of the survey that they did. I would look at them closely for problems with underreporting or difficulties in the respondents' recollecting dollar amounts over a 2-year period, but I accept that they have gotten answers from the people they surveyed, and done their analysis correctly with the information that they had, yes. Also it makes sense to me. I look for some general characteristics that make sense based on some of the points that I make. It makes sense that the reductions in Boston are lower because it is a high-benefit State that had people on the program with higher earnings, and, as a result of that, low-welfare benefits. When they were dropped, their average benefits would be lower, so the general properties of these numbers are right. Whether I can vouch for them in their actual dollar amounts is a little difficult at this point.

Mr. **Pease**. Allowing that some people who lost eligibility did manage to increase their earnings by working more hours or seeking a wage increase or whatever, the net effect, even after allowing for that, was that the families had suffered an actual loss of income during that period. What is your response to that? Too bad, or it is a shame, but there is no Federal responsibility? How do you respond to the fact that these families, all of whom were poor people almost by definition, suffered a significant loss of income?

Mr. **Pellechio**. I certainly share your concern about this evidence that there appears from these numbers to be a loss in income. I would examine the income amounts to be sure they took place.

Mr. **Pease**. Assuming they did take place, what would be your response?

Mr. **Pellechio**. I think the loss of a permanent income supplement is difficult on households, that there is a transition period that many of these people are caught in between having income supplement and not having one. My hope would be that the jobs that they have stuck with, the work experience that they gain for all the time they spend on their jobs, will make up that difference shortly. That the recovery continues, and that the low-inflation rates that we have enjoyed for a couple of years now maintain their real earnings. We have had an increase in real earnings of workers in the last couple of years for the first time in 10 years, and it is a little more patience, and an adherence to long-term solutions that I would concentrate on. I do not think my concern is any less than yours, the chairman's, or anybody on this committee. I think any characterization of the administration as any less caring is a caricature.

Mr. PEASE. What if the improvement does not materialize? You are hoping in the long run that the adjustment will be made and so on. What if we conduct a similar study of the same families 2 years from now, and they are still running $100 to $225 below in income, below what they had in 1981, what would be your response to that?

Mr. PELLECHIO. To look at the reasons that we can find from waiting an additional I hope, short period of time, not a long term. I hesitate to answer hypothetical questions for things that may happen for reasons I do not know.

Chairman FORD. Would the gentleman yield?

Mr. PEASE. Surely.

Chairman FORD. I would just like to note from the Secretary, what would you do if you lost that much income just overnight? How would you respond to that?

Mr. PELLECHIO. Which amount?

Chairman FORD. You indicated that inflation is down, and given more time they will gradually pick this loss up. How would you respond to that, if that was a personal loss to you?

Mr. PELLECHIO. I would spend less on the things that I have to provide for myself, housing, health insurance.

Chairman FORD. How do you spend less when you are poor and live in public housing?

Mr. PELLECHIO. Excuse me?

Chairman FORD. How can one spend less in public housing when there is a set amount of their earned income that must go toward housing?

Mr. PELLECHIO. If there is no way to spend less, I would bring my case to the welfare office or the State assistance office. As I mentioned, in the Energy Assistance Program, we have participation rates that are lower than eligibility.

Chairman FORD. Studies like the GAO report bringing that case to the administration, we hear from the administration today with a very sensitive ear? You say you would bring it forth, but to whom? The GAO and other studies have shown that it is for real. Poor people are suffering out there, so what do you propose other than an insensitive ear about the administration?

Mr. PELLECHIO. I would look at the existing programs that we have to provide energy assistance, emergency cash assistance in State general assistance programs, look at resources that could be mustered to help. If we run out of the tax revenue or other resources that we need, and we have a problem to face. I do not know how the allocation will come out between the Federal and State governments, but I am sure it will be a combination of the two. I think that in a lot of surveys these needy people sometimes are not aware of what they are entitled to, and we should in all our welfare offices try to make that information as easily available, especially when we anticipate a change in the case, a reduction in benefit because of additional earnings, or being dropped from the rolls. I think the mechanisms are in place. We have I think an outreach responsibility.

Chairman **Ford**. Thank you for yielding.

Mr. **Pease**. Dr. Pellechio, I just sense some unreality in what you are saying. Here are families who have lost income of as much as $229 a month, $2,500 to $3,000 a year, and you are saying that you ought to turn to emergency energy assistance programs, and to emergency cash assistance programs. In my county people go to the welfare department for emergency cash assistance, they get maybe $40 once a month. Now how is that going to replace the loss of $200 a month in income?

Mr. **Pellechio**. In the numbers you just cited, it does not replace the entire loss.

Mr. **Pease**. Go ahead. I will let you finish.

Mr. **Pellechio**. I feel I am repeating myself, and all I would say is that the energy assistance program is not the only one to stack up against the $200 loss.

Mr. **Pease**. What are the others? You mentioned the emergency cash assistance, which I said was maybe $30 or $40 once a month. What others are there?

Mr. **Pellechio**. A family might be eligible for reduced school lunch prices.

Mr. **Pease**. That would save what?

Mr. **Pellechio**. There are some private foundations providing assistance with food and energy expenses.

Mr. **Pease**. People go to soup kitchens, you mean?

Chairman **Ford**. The administration has made a statement on that, the soup lines and all. People are not there because they are hungry and all. They are there because they have nothing else to do and it is free and open. The homeless are homeless by choice, according to the administration.

Mr. **Pease**. Dr. Pellechio, I do not mean to badger you.

Mr. **Pellechio**. That is all right.

Mr. **Pease**. The gentleman from South Carolina I think is honestly searching from the facts so that we can arrive at some reasonable policy. I do not think we can allow you to say well, it is too bad if people are down by $2,400 or so in their annual income, but they can make that up, and then cite some programs that would not come even close to making it up. Either we have to admit that they are going to be short that amount, and say well, that is too bad, or we are going to have to say well, we made a mistake, we cut them too much, and we ought to reinstate some of the programs.

Mr. **Pellechio**. I think on the issue of loss in income or benefits that we do have anomalies in the data. That the Medicaid coverage rates are understated. Medicaid if people are eligible, even if they are not receiving it, has an insurance value of $1,200 to $2,000 that would have had to be paid as a premium if it were a private insurance policy.

So I would look at the reasons for underreporting and make adjustments to the income figures that we are citing. But I think it is a combination of correcting the income figures of programs that are out there that these people are not using and are eligible for, as well as what I think we will see if we follow this survey, of future increases in earnings.

Mr. PEASE. This is off the track a little bit, but you mention Medicaid has an insurance value of $1,200 to $2,000. GAO testified before that the value of the Medicaid was not factored into the income of the families as stated in this report. So if you want to do that, the loss of income would be $1,200 to $2,000 higher per year than what GAO has said. Is that what you want to do?

Mr. PELLECHIO. Right. We have to come up with a total income figure. It goes both ways in what the final result will be.

Another point I would like to make is we need a comparison group. We cannot just focus on this group. There are families of the same size and income who are meeting their expenses, who are making choices between health insurance premiums and meeting medical expenses directly. That has to be brought to light in a careful study that has a comparison group. That was the inequity we had in 1981. These people in the same circumstances meeting their needs look at public assistance as something that perhaps is not necessary. That reduces support for people who are really needy. I think the administration has pursued a course to shore up lagging or declining public confidence in government programs.

Mr. PEASE. Turning to page 4 of your testimony, you say "In 1981, in every State families of four or more could have an adult working full time at the minimum wage and remain on welfare."

Do I take it from your statement that you think that was a bad situation?

Mr. PELLECHIO. Is this the statement about working at a minimum wage in all States?

Mr. PEASE. The top of page 4, first paragraph, second line, where you say, "In every State, families of four or more could have an adult working full time at the minimum wage and remain on welfare."

Is the assumption that that was bad and needed correcting?

Mr. PELLECHIO. You could have a situation where you have two households working at a minimum wage. One is on welfare; one isn't. Whether it is bad—I don't want to make normative judgments. It is an inequity. The person working at the minimum wage and not receiving assistance looks somewhat jealously at the household on welfare; they are meeting their needs somehow. I don't see the family on public assistance as any needier than they are, yet somehow AFDC benefits are coming in.

I don't want to make a normative judgment about what the benefit levels should be. I think it is correctly lodged with the States. I don't think the welfare program should provide an income supplement to people who can work.

Mr. PEASE. You don't say in this paragraph that this situation is bad because some other families working at the minimum wage are not on welfare. You just cite that. And you say a few sentences later that another disturbing fact—which implies to me that you think it is disturbing—that someone who has four or more in the family could earn the minimum wage and still be on welfare.

Do you think that is disturbing, leaving aside comparison with other people?

Mr. **Pellechio**. I don't think that the welfare program is designed to provide, should be designed, was ever intended to be designed as an income supplement to people working at the minimum wage or above. That is a principle that guides policy. The earned income tax credit is a tax credit that these families are eligible for, if their earnings are low. I think that is a much better way to show to people that the Government can do something for you if you are working.

You learn the exercise of filling out a tax form, taking advantage of exemptions and credits that are available.

Mr. **Pease**. Isn't it true that generally anybody earning under $9,000 a year doesn't pay income taxes anyhow?

Mr. **Pellechio**. Excuse me?

Mr. **Pease**. Isn't it true that anyone earning under $9,000 a year doesn't pay Federal income taxes, anyhow?

Mr. **Pellechio**. I am really not familiar with the distribution of the tax.

Mr. **Pease**. That is correct.

Mr. **Pellechio**. If that is correct, it is a combination of exemptions, the zero tax bracket, and the earned income tax credit.

Mr. **Pease**. A family of four, without using any of the extraordinary exemptions, would not pay any taxes, and therefore would not get any benefit by way of reduced taxes from the earned income tax credit. Yet, they would have to get by on $6,900 a year.

Mr. **Pellechio**. They may not be eligible for AFDC, but the Food Stamp Program establishes an eligibility level at 130 percent of the poverty line. And that is not the only assistance they can get.

I think you have again a tiered system in the public assistance programs where cash assistance is provided for people who can't work. And then, beyond that, say, inner circle, you have concentric circles of providing assistance for people who are working but their earnings are low.

I think there is a certain wisdom in the development of these programs that partitions people in the most need, people who need income supplements, but in an in-kind way. There is wisdom in that.

Mr. **Pease**. I want to turn to the health care area which you mentioned several times. As we have heard from the GAO, about half a million people are no longer on AFDC as a result of the 1981 changes in the law, and, therefore, not eligible for Medicaid automatically.

You have said that that loss can be offset by things like the medically needy programs in some states, public health service, private health insurance policies.

Would you say that those half-million people, taken as a group, are better off now than they were when they were on medicaid, or not as well off, or that they are receiving basically comparable medical coverage?

Mr. PELLECHIO. I don't know the answer to that. I think that their basic medical needs are being met somehow, through medically needy programs, through general assistance programs in these States. I don't know if the policies are as generous as Medicaid. I don't wish to say that the Medicaid benefit levels are inappropriate in any way, but just that they may be covered under a policy that doesn't cover as much.

But, again, the issue is comparability to other families that were in the same situation. The policy of a family not on AFDC might, indeed, be less generous than Medicaid. And what these people who were dropped from the rolls are experiencing is a standard of living comparable to their peers at the same income level.

There would be perhaps a loss in well-being in a technical sense of calculating benefit packages before and after, but there would not be any failure to meet basic needs. It is just that there would be more budget decisions to make about paying a health insurance premium versus paying some medical needs directly.

Mr. PEASE. Or versus buying food or something of that sort?

Mr. PELLECHIO. Well, we all—all families come up with a budget for allocating their resources to meet expenses.

Mr. PEASE. But you would feel unable to make a judgment as to whether, as a group, that people who are now off AFDC as a result of the 1981 Act are better off or worse off or about the same as they were when they were on Medicaid?

Mr. PELLECHIO. I am sorry. I was looking at some notes that were given to me.

I am trying to think of something to say that doesn't repeat what I have said before.

Mr. PEASE. All you have to do is say—you said before you would not be able to make that judgment again and you stand by that.

Mr. PELLECHIO. I think basic needs are still being met. There are no, I would say, significant losses in well-being as a result.

Mr. PEASE. I think it is entirely appropriate and legitimate for you to point out that health care needs can be met by means other than Medicaid. That is true.

I think the question for this committee to decide is whether they are being met adequately or not, whether they are being met less well than they were before.

You talked about the medically needy program. It is not available in 20 States, according to your testimony, for some 30 percent of the people who have lost their eligibility. For them, medically needy programs are clearly not a possibility.

I don't know what you mean by the public health service, but I have a county where the unemployment rate is 12 percent even now. It has been as high as 24 percent in the last 18 months. We don't have a public health facility in our county for the people who are off of AFDC as a result of the 1981 act.

You talk about private health insurance. That is a joke. Blue Cross/Blue Shield is about the only company that will even accept people for individual policies, and they want $2,000 to $3,000 a year for coverage. So forget about that.

You also mentioned a program—what do we call it?—general assistance programs funded entirely by States. Again, in your own testimony you say that that money is directed to people in State hospitals, the aged, foster children, persons with catastrophic illnesses.

As a former member of the State legislature, I am somewhat familiar with those programs. To get eligibility, you really have to be indigent. You have to be without a job, without anything, or you have to be in an institution, or whatever. Surely that kind of program is not available to the average person who has been on AFDC, especially one who is working while on AFDC and is now knocked off.

All I am saying is that I think we need to be realistic. There has to have been a significant diminution of health care payments available to people who have been knocked off.

Again, you might say, as I think you probably would, that is tough; they are now in the same boat as people who were never on AFDC, and they ought to adjust to that. If we want to say that, that is all right.

I might differ with that point of view. I think it is important for us not to trot out various programs which conceivably might help people and then try to come to the conclusion from that that there is some kind of comparability in health insurance coverage, because there surely is not, at least on the basis of the programs you have mentioned to us this afternoon.

Mr. PELLECHIO. I would like to say only that I do not have an attitude of "that's tough." I just think that is unfair. I think I am experiencing—trying to answer your questions—the frustration I think you are experiencing in your policymaking capacity to address what is going on out there. We can reach far, but only so far, at the Federal level.

We don't know what is happening beyond our vision. Some care will always be provided for free. A substantial portion of visits to private physicians by low income people is supplied gratis.

We can't see that from this level. It is a frustration of ours. But there is only so far we can reach. We can't adopt some grandiose stand that everything is taken care of at the Federal level. That is the source of the frustration.

Mr. PEASE. Well, I appreciate that.

The chairman has been very generous. I want to just conclude with one question, which again goes to the point of whether or not we are being realistic.

You say that the solution—part of the solution to inadequate medical care—is more outreach, making sure that people are aware of the programs available to them.

How do you propose to execute this outreach? We are talking now about people who are off of the AFDC rolls and no longer under the jurisdiction of the welfare department. Who is going to have the responsibility of making sure those people are aware of what is available to them?

Mr. PELLECHIO. I am not familiar enough with program administration. It is not my job to know how that information can be made available.

My guess is that program records are not discarded as soon as a person is dropped from the rolls. Perhaps it is possible to get in touch with people, after their termination, through the mail about programs that they may continue to be eligible for.

Mr. PEASE. Are you proposing, or will HHS propose, to the States a way of doing that, or perhaps a requirement that they do greater outreach?

Mr. PELLECHIO. I really don't know if the program offices have any specific recommendations to make to the States about outreach, if there is any mailing or advertising suggestions being made. I think the department has a good record on administering the programs in a way that reaches as wide a group of people as possible, on making eligibility known to people.

In the Social Security Administration, there are very clearly written pamphlets explaining eligibility for benefits and how to determine roughly what your own benefit is. I know in the Social Security area, the literature and the outreach is commendable. What we see is underreporting rates that aren't as high for Social Security because people are aware of the program, knowledgeable of their entitlement to it, and receiving benefits.

Mr. PEASE. Thank you, Dr. Pellechio.

Mr. Chairman, I would just like to say in general that I am concerned about the loss of health care for families who have been removed from AFDC. I think as we study this matter further and try to find policy directions in which to go, that we not rely too heavily on outreach which would be very difficult to achieve, especially if, to achieve outreach, we would be essentially telling people about programs which are not really adequate to replace Medicaid coverage.

Thank you.

Chairman FORD. Thank you, Mr. Pease.

The Chair would like to announce that immediately after the administration finishes with its testimony—the Chair will recognize, first, Mr. Campbell for one or two wrapup questions—we will continue—we have already worked through the lunch hour—we will call the last panel up immediately afterward.

Mr. CAMPBELL. Mr. Chairman, I will be very brief. I would like to make a request of GAO while they are still here.

I would like to have the value of your housing supplements put into the income when you give me the figures that we asked for on the average income by region, so that we might look at the total, since you use AFDC and others without housing. I would like to know what the value of those housing supplements are.

I also would like to have the median figures for the loss of income instead of the mean, as I look at the extremely high level that is claimed on table 16 for places like Milwaukee, Syracuse and others. I want to see where we are on the median as well as the mean on this before we start talking about how much everybody has lost or hasn't lost. I would like to be sure we are looking at it exactly.

I would also like to know why the AFDC figure used on table 16, which is headed "Types of Assistance" that AFDC basic earners who lost AFDC because of OBRA were receiving in the fall of 1983—and the cost of health insurance in the fall of 1983—why the AFDC component of that has average grants of one level when in table 15, your AFDC average grants, which were the types of assistance that AFDC basic earners have been receiving when they lost AFDC because of OBRA by sites, have different levels.

I don't quite understand why, for instance, in Dallas it is $71 on one table and $138 on the other.

Ms. HEDRICK. I can answer that right now.

Table 15 refers to the amount of the AFDC grant before they lost AFDC due to OBRA.

Mr. PEASE. Would you suspend? Come up to the microphone so the reporter can hear you.

Ms. HEDRICK. The first figure in table 15, to answer your question, refers to the AFDC grant amount, the average grant amount that people were receiving before they lost AFDC due to OBRA. For all the people we interviewed, this is the amount they reported they were getting before.

Mr. CAMPBELL. The people that lost it?

Ms. HEDRICK. Yes. Table 15 is what they are reporting to us in the fall of 1983. Not all of them are on AFDC at this time point. That is the first line of the table. Of those on AFDC, this is their average grant amount.

Mr. CAMPBELL. Which figure did you use when you were computing how much they lost overall?

Ms. HEDRICK. When we were doing the income comparisons, we put the AFDC grant amount in for each time so the before OBRA average income includes the table 15 amount and the after figure on the income contrast includes the table 16 amount. If they were receiving AFDC, some of them wouldn't have had AFDC at that time.

Mr. CAMPBELL. So your total one, your total table was 15, right? That was everybody?

Ms. HEDRICK. For every one, yes.

Mr. CAMPBELL. Every one?

But then you put in 16 in reaching the amount of lost income? By utilizing those figures in with the total, is that right?

Ms. HEDRICK. Table 15 just tells you the characteristics of these people before they lost AFDC. Table 16 tells you their characteristics at the time they were interviewed, about 2 years later. Whenever we did our income contrasts that are back in table 19, we were using the sources of income, respondent earnings, AFDC if they were getting it, as indicated in table 16, and food stamps.

Mr. CAMPBELL. There was a remarkable increase in the amount they were claiming in table 16 as opposed to what you found in the others? Why was there so much difference?

Ms. HEDRICK. It is probably because those that are back on AFDC in the fall of 1983 are likely to be not working.

Mr. CAMPBELL. It says these are the ones that lost it? Did they come back?

Ms. HEDRICK. A few of them came back, some 7 to 27 percent were back on AFDC as of the fall of 1983.

Mr. CAMPBELL. OK. I am still not sure I am 100 percent clear on all of them, the bottom line on that, but I appreciate your explanation. I would like to see the median loss, the figure that we have on it.

I would like to conclude by thanking you, Dr. Pellechio, for coming before us and the GAO people for coming. We do want to find out what we can do about the medical problems. We are very concerned about that. We don't want to duplicate, but we don't want to have a whole lot of people fall through either.

I would draw one final conclusion, and that is that an expanding economy obviously creates some opportunity. I hope the economy keeps expanding and these people who have gone back to work have a great deal more opportunity and the others have it, too. Obviously low inflation in an expanding economy helps these people, too.

Mr. PEASE [presiding]. Thank you, Dr. Pellechio. We appreciate your testimony.

We will now call our next panel, Mary Nakashian, deputy commissioner for programs, Connecticut Department of Income Maintenance; Ira Moscovice, professor, Center for Health Services Research, University of Minnesota; T.M. Jim Parham, professor, School of Social Work, University of Georgia. Apparently Mr. Moscovice has a transportation problem. We will ask him to give his testimony first.

STATEMENT OF IRA MOSCOVICE, ASSOCIATE PROFESSOR, CENTER FOR HEALTH SERVICES RESEARCH, UNIVERSITY OF MINNESOTA

Mr. MOSCOVICE. Thank you, Mr. Chairman. My name is Ira Moscovice. I am an associate professor at the Center for Health Services Research, University of Minnesota. I am pleased to testify today on the impact of the Federal Omnibus Budget Reconciliation Act of 1981 (OBRA) on working AFDC recipients.

Rather than reading all of my testimony, I would like to read a part of it and comment on some of the issues raised today. In fact, the emphasis of our research has been on the health care issue. We have numbers to refute what the administration has been saying in terms of the use of medically needy people.

The changes that were implemented by OBRA at the end of 1981 weren't minor adjustments. They represent a major restructuring of a system that for almost 20 years has promoted work for welfare recipients as a strategy for reducing welfare costs. It has been estimated that the implementation of OBRA has denied benefits to almost 500,000 of the 4 million families who were on AFDC and reduced benefits to another 300,000. The regulations were aimed at saving public moneys and at forcing people with employment capability to support themselves. Potential annual savings have been estimated at $1.1 billion for the Federal Government and $900 million for the States.

For the past 2 years, my colleague, Will Craig, and I have been studying the impact of OBRA on working AFDC recipients in five counties in Minnesota. The five counties in the study include Hennepin County, the largest county in the State—which includes Minneapolis—and four rural counties: Carlton, Faribault, Martin, and Watonwan. The results from the four rural counties are, in general, similar to the Hennepin County results and will not be discussed here.

In Hennepin County, a random sample of working AFDC recipients was drawn and interviewed by telephone at three points in time covering the period immediately preceding the implementation of OBRA up through 1 year following the programmatic changes. The typical survey respondent was a 31-year-old woman with two children, a high school degree, and working in a clerical or service worker position—for example, a secretary, file clerk, waitress—generally paying from $4 to $6 per hour for a 30 to 40 hour work week.

Minnesota, first off, probably has a better economic situation than other States, particularly the ones in the South discussed earlier. The working poor is not a population that is really involved in the underground economy. It is not a population with an awful lot of extra money to spend. What we are really talking about is what should be the responsibility of the Federal Government for people near the poverty level? I take issue with what the administration said earlier. I see a shifting of responsibility but not dollars. The States are hurting, even States like Minnesota, that have a strong social responsibility for its citizens. They are really hurting in terms of figuring out how to deal with this population.

The findings of our study, based on the experiences of 542 families, including the following. In labor force participation we had similar findings to the GAO studies. The increase in labor force participation far overshadows the minority of respondents who either quit work or reduced their work hours to remain eligible for welfare. Less than 10 percent of those who were terminated were receiving AFDC benefits 1 year later. The depressed economy appears to have affected the labor force participation of AFDC recipients who worked more than Federal policy changes. Twelve percent of those terminated from AFDC were unemployed 1 year later primarily due to being laid off or fired rather than an effort to continue their AFDC eligibility.

The economic status of respondents has been reduced over time. Those off AFDC and working had increased net earnings from work, but replaced only one-half of their previous unearned income resulting in a 6 percent decrease in their monthly net income from $889 to $834. There could be some underreporting in our data as the administration said they expected in a study like this. We found in checking our information with the information collected by the department of public welfare in the State that these clients were reporting income in our survey that they hadn't been reporting, in fact, to the public welfare department. I feel fairly good about the accuracy of the net income data we have.

We collected information on expenditures and found out that the percentage of net income used for basic needs which included housing, utilities, food, day care, and medical expenses, increased from 72 to 85 percent during that 1 year study period. We are talking about people spending 85 percent of their net income on basic needs. That doesn't include clothing and a lot of other things you might want to consider with respect to basic needs.

These people are spending 2 percent of their income on recreation. That is what they report on a monthly basis. How would you live having to spend almost 90 percent of your income on basic needs? It doesn't leave a lot of running room.

In the area of health care, when on AFDC, recipients and their children had health insurance coverage provided by Medicaid, though those employed often had insurance through their workplace as well. Eligibility for Medicaid ends with termination from AFDC making health care potentially more costly and less accessible to the individual.

The vast majority of families continued to have a usual source of health care, with less than two-thirds using a private physician. Approximately one-third of the respondents and one-fourth of their children had private health insurance coverage—in addition to Medicaid—prior to the cutbacks.

They were all working. Some had private health insurance coverage. Those terminated from AFDC increased their use of HMO's and community clinics and decreased their use of private physicians as a usual source of care, have more frequently delayed seeing physicians and dentists because of problems with payment, and reported paying 54 percent of their health care bills out-of-pocket resulting in an average monthly out-of-pocket medical expenditure of $47. Despite these sizable expenditures, only 5 percent of the families terminated from AFDC became eligible for Medicaid under the State medically needy program.

To become eligible under the medically needy program, you have to have had catastrophic health expenses. That is the point of the program. You are not categorically needy. You are medically needy. What you are talking about is a child needing a complicated surgical procedure. The issue with the MCH population is the need for preventive care and primary care. You are not going to get on a medically needy program because of those needs. Also, only 2 families out of 500 got on general assistance. The argument made that State programs will be used to provide health coverage for the working poor is totally fallacious. The private health insurance argument we will deal with now.

Twenty-three percent of those terminated from AFDC and working and 37 percent of their children had no health insurance one year after the cutbacks; rates considerably higher than the 10 percent of the population that are uninsured in the larger SMSA's in the country. Those off AFDC and without health insurance coverage worked less, had lower wage rates and lower net income than their counterparts with health insurance coverage.

That is just as you would expect. Those lacking health insurance were less likely to have a usual source of care, used community clinics, hospital outpatient departments, and emergency rooms more often and delayed seeing physicians and dentists because of cost significantly more often than those with insurance.

Only 1 percent of respondents bought private health insurance directly, presumably due to cost. The current cost of a typical private health insurance policy for a 30-year-old woman with two children is approximately $1,700 per year in the Twin Cities area. Those that had private health insurance through work had considerbly weaker coverage than those still on Medicaid. Less than half had full coverage for hospital stays and physician visits, 13 percent had complete coverage for dental care, and 10 percent had complete coverage for drugs. Many families terminated from AFDC have already been severely impacted by their loss of Medicaid eligibility.

There are a lot of people who don't have health insurance. Those that do have insurance don't have as good coverage, at least in the counties we looked at in Minnesota. Another important point that hasn't been brought out is for those respondents with health insurance, a lot of their policies don't cover dependents. So even more of their children don't have health insurance coverage.

In the area of daycare, those working had very slight decreases in their use of day care, but found many other ways to lower their monthly dollar outlay. These ways included: a 47-percent increase in their use of Hennepin County title XX funds from one eighty-second to one eighty-third, switching types of day care, leaving children alone for part of the time, or switching to less expensive day care centers. These changes had not been made without a price being paid. More than twice as many people were dissatisfied with the day care their children were getting 1 year later. There was also a one-third increase in the number of children needing, but not getting, day care.

There have been small increases in the incidence of financial emergencies for those affected by the OBRA cutbacks. In Minnesota with respect to heating, you can't shut heat off in the winter. Despite that, 25 to 30 percent of respondents had a threatened or actual utility shutoff during any 6-month period since the cutbacks and slightly less than half of the respondents had problems with buying enough food. Most families didn't get help from fuel assistance programs, emergency assistance programs, or emergency food shelves/food shelters. An increasing number of respondents who have stopped day care due to cost are now leaving their children alone without any supervised day care.

This research is continuing. We share Mr. Campbell's interest about what happened when the recession was over. We just completed a 2-year followup study of the same population and collected data in February of 1984 that we are analyzing right now. Within about 3 to 4 months, we should have an answer to whether the picture has gotten better for this group since the economic recovery.

Mr. CAMPBELL. Did you say that data was gathered in February?

Mr. MOSCOVICE. It was collected during the month of February 1984.

Mr. CAMPBELL. I hope when they finish that study, I would ask them to supply us a copy of it.

Mr. MOSCOVICE. Absolutely. I provided the committee with a copy of our previous analysis. We would be glad to do that upon completion of our work.

Our study reveals that substantial numbers of working recipients who were dropped from AFDC have maintained their independence from welfare by increasing their labor force participation. This finding is similar to the results of the recent General Accounting Office evaluation of the 1981 AFDC changes. Those terminated from AFDC are tenaciously striving not to become chronically dependent on welfare.

OBRA appears to be dividing the working poor into subgroups—those trying to remain independent from welfare and those totally dependent on welfare. It is no longer being used to help the working poor make the transition from welfare dependence to economic independence.

Basic needs are consuming an alarmingly high proportion of net income for the working poor. Many of the working poor live delicately balanced lives constantly hoping to postpone the next financial crisis that could wreck havoc for their families. The current economy has not proved to be an adequate substitute for direct governmental intervention in helping the "corridor poor" to relieve their financial plight. Federal policymakers need to seriously reconsider some of the recent changes initiated in the AFDC program. Of particular concern are the extremely strict limits on work expenses—$75 including taxes—which are exceeded by virtually all recipients, as well as the 4-month limit for the work incentive disregard.

The findings indicate that the inability to obtain adequate health care is a large problem for those terminated from AFDC. Many have already suffered by no longer being eligible for Medicaid. One-fourth of those off AFDC and working and almost 40 percent of their children were without health coverage. They were more likely to use a hospital emergency room, hospital outpatient department or community clinic as a usual source of care than the insured. Their families have been less willing and able to see doctor and dentists when necessary, which would eventually lead to debilitating problems. Of particular concern is the lack of health insurance coverage for the children in this group.

It has been asked before what should be done for the 1 million children who don't have health insurance coverage. Well, we should pass bills like CHAP which has been introduced by Representative Waxman. We should increase funding for the MCH block grant. We should try to take care of the health insurance problems of this population.

The working poor cannot afford to buy private health insurance directly. A typical policy would consume almost 20 percent of the annual net income of those off AFDC and working. Federal and State policymakers need to develop alternative programs for providing health care coverage for the low income employed, particularly for families with children. One alternative is to continue Medicaid coverage for working AFDC recipients who were recently terminated and have no health insurance.

Another option is establishing risk pools to cover the health care costs of the uninsured and their dependents. Minnesota has complete Medicaid coverage. We offer all optional services. When you had Medicaid, you had a good health insurance policy, better than what I personally have right now. People were hurt by their loss of Medicaid coverage. This population needs basic preventive care and primary care. Inpatient care can be met by other means. Perhaps what you want to do is put together a package of health services including basic preventive and primary care, and price them out. We are having Blue Cross-Blue Shield price out the above services on a per capita basis in Minnesota. Let people who are making $10,000 or $12,000, perhaps a little above the Federal poverty guidelines, buy insurance coverage but not at $2,000 a year. Let them buy into that at a price they can afford. Consider basing that price on a sliding fee scale depending on their income. We need to take care of the uninsured who are at or near the poverty line.

Daycare is another important area of consideration for Federal, State, and county governments. Those working tended to have older children, but are showing growing signs of unrest with their day care arrangements. Those still on AFDC may be stuck there by their larger number of small children and lack of day care. Federal and local investment in day care could save many tax dollars as these families retain or gain their independence.

In sum, very few working AFDC recipients quit work to remain on welfare during the first year after the implementation of OBRA. Some may view this as encouraging evidence for a conservative welfare cutting agenda. Present welfare policy changes, however, can only be viewed as helpful if former recipients are not left in a precarious situation with respect to meeting their basic needs, especially health care and day care.

[The prepared statement follows:]

Statement of Ira Moscovice, Associate Professor, Center for Health Services Research, University of Minnesota

Mr. Chairman and members of the Subcommittee, my name is Ira Moscovice. I am an Associate Professor at the Center for Health Services Research, University of Minnesota. I am pleased to testify today on the impact of the Federal Omnibus Budget Reconciliation Act of 1981 (OBRA) on working AFDC recipients.

THE IMPLEMENTATION OF OBRA

OBRA produced substantial changes in the AFDC program. The main effect of the changes has been the denial of assistance to many AFDC recipients with jobs. Prior to the enactment of OBRA, states could disregard a portion of earnings in determining available income of AFDC recipients. This policy, along with the reimbursement of reasonable work expenses, provided work incentives for AFDC recipients.

The enactment of OBRA eliminated such incentives after the first four months of employment, imposed limits on reimbursable work expenses and child care expenses, and placed a ceiling on the amount of earnings allowed. The base for the earnings disregard was changed from gross income to net income and limited to four consecutive payment months. Deductions for work expenses such as taxes, health insurance, meals, transportation, and union dues were limited to $75 per month per wage earner and child care expenses to $160 per child. Families were no longer eligible for the program if their total household gross income (i.e., earned and unearned) exceeded 150 percent of their states' specified standard of need. In many states, a mother with one child would be terminated from the program if she worked full-time at only the minimum wage.

These AFDC changes implemented at the end of 1981 and the beginning of 1982 were not minor adjustments. Instead, they represent a major restructuring of a system that for almost twenty years has promoted work for welfare recipients as a strategy for reducing welfare costs. It has been estimated that the implementation of OBRA has denied benefits to almost 500,000 of the 4 million families who were on AFDC and reduced benefits to another 300,000. The regulations were aimed at saving public monies and at forcing people with employment capability to support themselves. Potential annual savings have been estimated at $1.1 billion for the federal government and $900 million for the states.

The elimination of financial work incentives for AFDC recipients is the direct result of the Reagan administration's effort to narrow welfare eligibility and target benefits to the "truly needy." The administration would like the AFDC program to act as a safety net rather than a guaranteed income, particularly for individuals with a proven ability to hold a job. Supporters predicted significant potential savings associated with the OBRA cutbacks; however, others claimed that the enactment of OBRA would simply force the working poor deeper into poverty and drastically reduce their ability to improve their economic status. Welfare parents who work would generally not fare better than those who did not work. These critics view AFDC as an indispensable program for poor women confined to working in a low-wage market.

THE IMPACT OF OBRA ON THE WORKING POOR

For the past two and one-half years, my colleague, Will Craig, and I have been studying the impact of OBRA on working AFDC recipients in five counties in Minnesota.[1] Although our findings are limited to one state, the study benefits from an in-depth examination of health care and insurance loss of working AFDC recipients terminated due to OBRA.

The five counties in the study include Hemmepin County, the largest county in the state (which includes Minneapolis), and four rural counties (Carlton, Faribault, Martin, and Wantonwan). The results from the four rural counties are, in general, similar to the Hennepin County results and will not be discussed here.

In Hennepin County, a random sample of working AFDC recipients was drawn and interviewed by telephone at three points in time covering the period immediately preceding the implementation of OBRA up through one year following the programmatic changes. The typical survey respondent was a 31 year old woman with two children, a high school degree, and working in a clerical or service worker position (e.g., secretary, file clerk, waitress) generally paying from $4 to $6 per hour for a 30 to 40 hour work week.

The findings of our study, based on the experiences of 542 families, include:

Labor force participation.—The increase in labor force participation far overshadows the minority of respondents who either quit work or reduced their work hours to remain eligible for welfare. Less than 10 percent of those who were terminated were receiving AFDC benefits one year later. The depressed economy appears to have affected the labor force participation of AFDC recipients who worked more than federal policy changes. Twelve percent of those terminated from AFDC were unemployed one year later primarily due to being laid off or fired rather than an effort to continue their AFDC eligibility.

Economic status.—The economic status of respondents has been reduced over time. Those off AFDC and working had increased net earnings from work but replaced only one-half of their previous unearned income resulting in a 6 percent decrease in their monthly net income from $889 to $834. Their average annual gross earnings from work in 1982 were $10,666, an amount only slightly higher than the federal government's poverty line. They increased their percentage of net income used for basic needs (e.g., housing, utilities, food, day care, and medical expenses) from 72 percent to 85 percent during the one year study period.

Health care.—When on AFDC, recipients and their children had health insurance coverage provided by Medicaid, though those employed often had insurance through their workplace as well. Eligibility for Medicaid ends with termination from AFDC making health care potentially more costly and less accessible to the individual.

The vast majority of families continued to have a usual source of health care, with less than two-thirds using a private physician. Approximately one-third of the respondents and one-fourth of their children had private health insurance coverage (in addition to Medicaid) prior to the cutbacks. Those terminated from AFDC increased their use of HMOs and community clinics and decreased their use of private physicians as a usual source of care, have more frequently delayed seeing physicians and dentists because of problems with payment, and reported paying 54 percent of their health care bills out-of-pocket resulting in an average monthly out-of-pocket medical expenditure of $47. Despite these sizable out-of-pocket medical expenditures, only 5 percent of the families terminated from AFDC became eligible for Medicaid under the state medically needy program.

Twenty-three percent of those terminated from AFDC and working and 37 percent of their children had no health insurance one year after the cutbacks; rates considerably higher than the 10 percent of the population that are uninsured in the larger SMSAs in the country. Those off AFDC and without health insurance coverage worked less, had lower wage rates and lower net income than their counterparts with health insurance coverage. Those lacking health insurance were less likely to have a usual source of care, used community clinics, hospital outpatient departments, and emergency rooms more often and delayed seeing physicians and dentists because of cost significantly more often than those with insurance.

Only 1 percent of respondents bought private health insurance directly, presumably due to cost. The current cost of a typical private health insurance policy for a 30 year old woman with two children is approximately $1700 per year in the Twin Cities area. Those that had private health insurance through work had considerably weaker coverage than those still on Medicaid. Less than half had complete coverage for hospital stays and physician visits, 13 percent had complete coverage for dental care, and 10 percent had complete coverage for drugs. Many families terminated from AFDC have already been severely impacted by their loss of Medicaid eligibility.

---

[1] This research is currently supported by grant number HS04986 from the National Center for Health Services Research, OASH.

Day Care.—Those working had very slight decreases in their use of day care, but found many other ways to lower their monthly dollar outlay. These ways included: a 47 percent increase in their use of Hennepin County/Title XX funds from 1/82 to 1/83, switching types of day care, leaving children alone for part of the time, or switching to less expensive day care centers. These changes had not been made without a price being paid. More than twice as many people were dissatisfied with the day care their children were getting one year later. There was also a one-third increase in the number of children needing, but not getting, day care.

Financial emergencies.—There have been small increases in the incidence of financial emergencies for those affected by the OBRA cutbacks. Twenty-five to 30 percent of respondents had a threatened or actual utility shutoff during any six month period since the cutbacks and slightly less than half of the respondents had problems with buying enough food. Most families didn't get help from fuel assistance programs, emergency assistance programs, or emergency food shelves/food shelters. An increasing number of respondents who have stopped day care due to cost are now leaving their children alone without any supervised day care.

Housing.—The typical family continues to rent a house or apartment with an average of five rooms. Very few families have moved in with relatives and are not paying rent. The rate of movement is very stable with about 17 percent of the households making at least one move during a six month period. The major reason for moving has increasingly become cheaper rent, replacing the convenience factors of more space and closer to work. One household in seven attributed a housing change during the year to the change in their AFDC status as they tried to make up for lost income.

CONCLUSIONS AND RECOMMENDATIONS FOR CHANGE

Our study reveals that substantial numbers of working recipients who were dropped from AFDC have maintained their independence from welfare by increasing their labor force participation. This finding is similar to the results of the recent General Accounting Office evaluation of the 1981 AFDC changes. Those terminated from AFDC are tenaciously striving not to become chronically dependent on welfare.

OBRA appears to be dividing the working poor into two subgroups—those trying to remain independent from welfare and those totally dependent on welfare. The AFDC program is no longer being used to help the working poor make the transition from welfare dependence to economic independence.

Basic needs are consuming an alarmingly high proportion of net income for the working poor. Many of the working poor live delicately balanced lives constantly hoping to postpone the next financial crisis that could wreck havoc for their families. The current economy has not proved to be an adequate substitute for direct governmental intervention in helping the "corridor poor"—low wage earners no longer eligible for welfare, Medicaid, food stamps, and subsidized housing—to relieve their financial plight. Federal policymakers need to seriously reconsider some of the recent changes initiated in the AFDC program. Of particular concern are the extremely strict limits on work expenses ($75 including taxes) which are exceeded by virtually all recipients, as well as the four month limit for the work incentive disregard.

The findings indicate that the inability to obtain adequate health care is a large problem for those terminated from AFDC. Many have already suffered by no longer being eligible for Medicaid. One-fourth of those off AFDC and working and almost 40 percent of their children were without health coverage. They were more likely to use a hospital emergency room, hospital outpatient department or community clinic as a usual source of care than the insured. Their families have been less willing and able to see doctors and dentists when necessary, which would eventually lead to debilitating problems. Of particular concern is the lack of health insurance coverage for the children in this group.

The working poor cannot afford to buy private health insurance directly. A typical policy would consume almost 20 percent of the annual net income of those off AFDC and working. Federal and state policymakers need to develop alternative programs for providing health care coverage for the low income employed, particularly for families with children. Alternatives include continuing Medicaid coverage for working AFDC recipients who were recently terminated and have no health insurance, establishing risk pools to cover the health care costs of the uninsured and their dependents, or encouraging (or mandating) private employers to improve their health insurance benefits for low wage employees.

Day care is another important area of consideration for federal, state and county governments. Those working tended to have older children, but are showing growing signs of unrest with their day care arrangements. Those still on AFDC may be stuck there by their larger number of small childern and lack of day care. Federal and local investment in day care could save many tax dollars as these families retain or gain their independence.

In sum, very few working AFDC recipients quit work to remain on welfare during the first year after the implementation of OBRA. Some may view this as encouraging evidence for a conservative welfare cutting agenda. Present welfare policy changes, however, can only be viewed as helpful if former recipients are not left in a precarious situation with respect to meeting their basic needs, especially health care and day care.

Chairman Ford. The Chair will recognize Prof. Jim Parham at this time, professor of the School of Social Work at the University of Georgia.

STATEMENT OF T.M. JIM PARHAM, PROFESSOR, SCHOOL OF SOCIAL WORK, UNIVERSITY OF GEORGIA

Mr. Parham. I am grateful to you. What I have given you is a written statement, really just the highlights, beginning analysis of a study including Georgia in which there were three States, or three locations—New York City, Michigan, and Georgia—with the Center for the Study of Social Policy directory and financed by the Ford Foundation. Part of the reason for bringing Georgia into the study was they wanted to get a more rural, southern area with lower benefit levels. So we were what they were looking for.

In our study, we collected data on 207 families terminated by these 1981 OBRA AFDC changes with regard to earned income. They were part of a universe of 1,800 such families terminated in about the first 6 or 7 months of the enactment of the OBRA or implementation of the OBRA enactments. We did not look at 5,000 families cut due to the new stepfather rules. We stuck strictly to these others.

Georgia's programs, as you know, coming from Tennessee, and Brother Campbell from South Carolina, have always been conservative. The purchasing power of our AFDC grant is 30 percent lower now than in 1969. The thing that keeps families afloat is the Federal Food Stamp Program. One salutary effect of the 1981 changes, if there is anything I can say that would be good about them—which would be very limited—was that they did persuade the Georgia Legislature to revise a totally obsolete standard of need. I don't know if it occurred in South Carolina. It did occur in Georgia and is something I worked on earlier, without success, I might add. They practically doubled the standard of need. If not, the gross income cap would have cut hundreds of additional families.

The standard of need at that time of a three-person family was like $190 a month, 150-percent of that you can figure out. They doubled it so that the Georgia 150 percent standard now is $549 a month.

If you earn the minimum wage at a full-time job, you exceed that $549, 150 percent standard.

We talked about raises benefits with money saved. I think the administration mentioned States had raised. Georgia is going to raise the AFDC proportion of its standard which it pays in July from 55.12 percent to 56.77 percent of the standard, which will mean $6 a month to these families that are still on, $2 of which is State. The wages are not high, especially for jobs held by welfare recipients; 71 percent of our sample earned less than $4 an hour. Most of them did work full time. Two-thirds of them, indicating their commitment to the work ethic, expressed a desire for more hours of work if those hours could be found. Perhaps if there is a possibility for employment, they will; 92 percent worked 10 of the last 27 months or more; 52 percent of those mothers had children under 6 and they were not required to work under the AFDC rules, which shows they were working because they wanted to work. I think we shouldn't be surprised these folks want to stay in the labor market if they can. We have known that for some time. Our findings closely parallel those of the General Accounting Office.

The Georgia sample was very poor, truly needy by almost anybody's definition. I say almost anybody's definition. At termination, 70 percent of these folks were below the poverty level, even if you added AFDC and earnings and food stamps together, 70 percent. When we interviewed them, 12 to 18 months later, 79 percent were below the poverty level, including earnings, AFDC and food stamps. And those below 75 percent of the poverty level in the group doubled from 18 to 36 percent.

Between termination and interview, 50 percent of the people terminated in this sample—50 percent—reapplied and 38 percent were reaccepted. Also, I might add, their grant levels were twice as high at reacceptance as they were before they were terminated when they were working and trying to help support themselves; 62 percent of our sample are still working. They average $480 a month, and I think it is a tribute to their devotion to the work ethic if you look at how well off they are—those workers—without Medicaid. They do get food stamps, of course, most of them, $160 would be the amount they can get on the average. If you look at that, add it together, multiply it by 12, without Medicaid, and deduct their $120 a month average work expense, they have a total of $6,248. You look at the AFDC mom in a State like Georgia with our absolutely submarginal grant levels; $202 a month for a three-person family, $199 food stamps, $401 total for the month and multiply that by 12, the total is $4,812. You assign a value to Medicaid—which we have talked about here—of course you don't get Medicaid, if you don't need it, most do need it from time to time. If you assign a value to it, half of what the Georgia Department reports that it pays out for a mother and two children per year, that total comes to $5,682. These are rough figures, but you can see that the difference between this working mom and this mom who has decided to go back to AFDC, for whatever reason, is $566 a year, $47 a month, $11.75 a week, 35 cents an hour for working an average of 133 hours a month. Why do they work? Some of them said, "I enjoy it. You think I want to be on welfare?"

The concerns and problems of our sample are very familiar to the GAO sample, When I saw the news report about the GAO sample, I told my wife, "This looks like a quote from my report. Lack of adequate health care was frequent. Only 29 percent had jobs that offered coverage; 55 percent of these report four or more health problems in the family. They had spent $377 in the previous year out-of-pocket expense. Many of them reported being ill, depresssed, anxious. One person I personally interviewed in the State had overdosed at one point and almost died as a result of all the stress in her life, partially created by these changes and this disruption of her life.

One-third——

Mr. CAMPBELL. You are saying they overdosed on drugs and it was caused by this? Sleeping pills? Tried to commit suicide?

Mr. PARHAM. Partially because of the stress created in her life by the fact she was not able to have sufficient subsistence.

Mr. CAMPBELL. She tried to commit suicide. I didn't want to leave the impression——

Mr. PARHAM. No. It was trying to commit suicide, not heroin.

One-third reported running completely out of food on occasion; 80 percent ran completely out of money; 38 percent had bills that were 2 months plus overdue; 27 percent had no phone; 15 percent had their utilities cut off; 14 percent relocated, mostly moving in with parents or siblings and so forth.

Now, I am glad to see your transition program. I very much hope that something can be done that will allow some modicum of Medicaid coverage. Even with Medicaid in our locations, Mr. Campbell, you often can't find a physician who will serve you.

I know in Georgia, it is really a disgrace that 6 percent of the physicians in Georgia provide 52 percent of the claims. You can't find a physician who will serve you. I think we ought to require physicians to serve Medicaid patients as a condition of getting a license. We certainly ought to provide some kind of assistance, some kind of transition coverage. On the new gross income cap, I don't see why in addition to going to the 130 percent of poverty level you don't also drop the need for considering the earnings of children. For years we didn't consider the earnings of children. We want children to work. We don't want them to see that by a little work they are going to cause Mom to lose a buck. It wouldn't cost the Government anything. Probably wouldn't cost more than most of the people in this room get on their health insurance deductions. I don't see why the committee doesn't consider that.

In another area, one of my former staff said that there ought to be a way to waive this overpayment recoupment when the error is the fault of the agency. I don't know how that got into the law. It seems a strange thing to me.

And the AFDC UP mandate has been talked about, it ought to be done. I am sorry to be in a hurry, Mr. Chairman. I do appreciate being here. I certainly appreciate the work of the committee, and I would be glad to try to provide more precise information, less polemical, perhaps than I have done here today.

[The prepared statement follows:]

STATEMENT OF T.M. JIM PARHAM, PROFESSOR, SCHOOL OF SOCIAL WORK, UNIVERSITY OF GEORGIA

GEORGIA AFDC STUDY

In late 1982, the University of Georgia School of Social Work Research Center was asked by the Center for the Study of Social Policy in Washington, DC to participate in a study of working poor welfare families who were cut off Aid to Families with Dependent Children (AFDC) by changes in eligibility criteria recommended by the Reagan administration and passed by the Congress in 1981.

The study is illustrated by this quote from one of the Georgia mothers we interviewed. "When I was working, it made me feel good inside even though they were still giving me my welfare check, because while I was working, I still felt independent. I thought that they felt I was independent enough to get out there and try to better myself and that's why they were still helping me. But then they cut me off, just like that."

This report is about 209 Georgia mothers and their children who were among about 1,800 such families who lost their welfare grants because new policies established in October 1981 said they made too much money to remain eligible. They were not, it was argued, "truly needy."

At the time of their termination, 70 percent of these families had total resources, including earnings, welfare, and food stamps, which still left them below the official poverty level. By the time of our interview, 79 percent were below poverty.

On average at termination, these families lost AFDC cash totaling $79/month, about $9 of which was made up by an increase in their food stamp allotments. They also lost Medicaid eligibility, the value of which is hard to quantify because you get it only if you need it.

Most of these mothers had gone to work, like the rest of us, because they wanted to improve their standard of living and be as self-reliant as possible. Fifty-two percent of the group entered work status voluntarily since welfare policies do not require mothers to work if there is at least one child below age 6 in the family.

Forty percent of our sample found that they had taken the forward step of going to work just in time to take the backward step of losing AFDC and Medicaid.

The study focuses on our treatment of the working poor welfare mother and her children. Some argue that we have treated her so well that she now prefers steady welfare checks rather than a risky marriage to a husband with low earnings and tenuous, intermittent employment. Others argue that these single-parent family patterns are related to larger sex and role changes in our society that have nothing to do with welfare status, that this group of female-headed households has become fully one-half of our poverty population, and that we must help them more adequately for the sake of the children and our stake in their future behavior.

The actions which prompted this study were part of a perpetual controversy over the central questions of welfare policy. Those central questions are: (1) Who is to be helped? and (2) How much are they to get? Who is to be eligible for available benefits and what will be the size and form of those benefits? These have been and remain the questions which excite strong feelings among both proponents and opponents of welfare policy.

There is general agreement on the need for assistance to young children, old people, and the sick and handicapped. The group that always arouses severe controversy, however, is that composed of able-bodied adults who are without adequate income because of social handicaps, limited education, unemployment, or a combination of such factors.

Many people feel that such able-bodied poor have made conscious choices—about attending or not attending school, having children, getting married too young, and seeking work when they were not prepared—and that therefore the poor circumstance in which they find themselves is of their own making. In their view, help for such persons should be minimal. They must endure the negative consequences of their poor foresight in order to "learn their lesson."

On the other hand, some believe that such critical life choices on school, sex, marriage, and work, are seldom freely made but are more likely shaped by cultural and economic forces beyond individual control. They believe, therefore, that the larger society should assist those negatively affected by such forces to at least maintain basic subsistence and to at best become self-sustaining.

Within that broadly sketched arena, there are an infinite number of specific disagreements.

Such disagreements were the basis for the AFDC policy changes enacted by the Congress in the Omnibus Budget Reconciliation Act of 1981, popularly known as "OBRA." These changes in AFDC, food stamps, and Medicaid, were designed to remove from eligibility those working families for whom, as some officials declared, ". . . benefits were never intended."

Martin Anderson, President Reagan's first domestic policy chief, had contended in a 1978 text entitled Welfare, that earnings by ADFC recipients should not be discounted when calculating benefits. He wrote, "Why should we reward people for doing what they should be right by doing anyway?"

The special object of Anderson's criticism was the provision which allowed an AFDC mother who became employed while on the program to subtract from her countable earnings the first thirty dollars plus one-third of the remainder when calculations were made as to how the grant would be affected by her work. This provision had been introduced in the late 1960's as part of a number of moves to provide incentives for recipients to work, improve their total amount of subsistence resources, but avoid the discouraging risk of losing all benefits. The simple logic was that if earnings result in a dollar-for-dollar loss of benefits, work is discouraged. If we want welfare recipients to work, then we should be sure that work makes them "better off" economically.

These provisions were aimed at supporting our highly cherished work ethic, and they did. More recipients went to work. Even though their grants were less, they were better off and helping to support themselves. If their earnings increased, they eventually were ineligible and off the welfare rolls. Many families used this combination of work and welfare as a gradual ladder to self-support.

Such a structure has built-in problems, however. One is that it tends to expand the number of families receiving assistance, and many are on for longer periods with their declining grants. Even though many families are getting less, total costs increase because more families remain eligible for longer periods.

Another structural problem is the so-called "notch effect." This occurs because of the interrelation of AFDC and earnings with other income-tested programs such as Medicaid, child day care, public housing, etc. As a recipient climbs the earnings ladder, she gets to a point where one more dollar of earnings causes her to lose eligibility for other benefits much more valuable than her small gain in earnings; and at that "notch point," she is "worse off" rather than "better off" due to her work effort.

Still another facet of these phenomena unsettling to many critics is the fact that discounting earnings for incentive purposes often results in working welfare families being "better off" economically than other "working poor" families who for various reasons are ineligible. This is especially true in low-wage states where intact families with able-bodied fathers are automatically excluded. It is also more striking when, for comparison, one assigns value to "in kind" benefits such as Medicaid, public housing, and child day care, often available to the welfare eligible.

Students of welfare policy have struggled with these dilemmas for years. An obvious possible approach of merging several program benefits into a single cash grant has not been politically feasible because many special interests have a stake in maintaining the status quo. Those who have an understandable interest in maintaining their advantage include providers of goods and services who benefit from the present structure, committees of Congress who covet their power of authorization and oversight, state and local governments which dispense money and jobs, professionals whose careers depend on certain programs, advocacy groups who fear the focus of their concerns will be diluted, and, of course, recipients groups—those lucky enough to be winners in what is sort of a grand "crap shoot."

It was toward this working welfare group and the policies that made such a group possible that the 1981 policy changes were directed. The aim was to squeeze the top earners in these groups off the rolls and save money on AFDC and Medicaid. There were many changes, but the most significant were as follows:

1. There was imposed a "gross income ceiling" on family income of 150% of the state's standard of need which could not be exceeded if the applicant family was even to be considered; this absolute ceiling changed earlier rules (in effect for 16 years) by requiring that the earnings of children in the family be included.
2. There was established a limit on work-related expenses which could be subtracted from earnings when calculating benefits—including a four-month limit on the "thirty plus one-third" provision. The procedure or sequence for calculating grants was stipulated rather than being left to state discretion, and any income to be expected from "Earned Income Tax Credits" was to be assumed in advance.
3. A national requirement was established stipulating that available earnings of stepfathers had to be applied against AFDC eligibility criteria for mothers and stepchildren.
4. Absolute income limits were also imposed for the food stamp program (130 percent of the nonfarm poverty index level for "households"—not families); and allowances for subtracting earned income were lowered.

As Georgia welfare administrators in the summer of 1981 contemplated the potential effects of these congressional mandates, it became obvious that the gross income ceiling of 150 percent and the obsolete state standard of need posed a serious threat to the 13 percent of the AFDC caseload that was working. In spite of repeated requests by advocacy groups and administrators, the legislature had permitted no change in the obsolete state standard since 1971. That standard was $227 per month for a family of four; 150 percent of that would mean that any family group of four with earnings of just $340 per month would have been automatically ineligible as of October 1981. That was the equivalent of a wage of less than $2.00 per hour for a 40-hour week and an annual income of less than one-half the poverty level for such a family.

With this prospect of wholesale dumping of desperately poor families, legislative leaders were persuaded to allow the state standard to be raised to $432 for a family of four—almost a doubling of the previous standard. This raised the 150 percent ceiling to $648 per month for that size family. Georgia payment levels were also raised but only marginally since states are allowed to pay eligible families less than the amounts stated in their standards. For example, Georgia was paying about 95 percent of the obsolete 1971 standard, and when the new standard was in place, it paid 50 percent. Most states in this region have similar provisions.

After the Georgia standard was raised so significantly, the effect of the newly applied gross income rule was softened but still closed 659 cases in October and November. Interestingly, the specific change that resulted in the greatest number of terminations was the requirement that the income of stepfathers be included. The first two months of that rule closed 4,353 cases. By the end of 1982, 24 percent (1,269) of stepfather closures had returned to eligibility.

The new restrictions on earned income closed 917 cases in the first month (October 1981); and another 556 cases were closed in February 1982 when the four-month limit on discounting the thirty dollars plus one-third became effective.

In summary, 1,729 cases were closed within six months because the income of the AFDC mothers and children exceeded the new limits; and another 4,812 were closed because of the stepfather's income. These 6,500 families had played by the old rules, i.e., had gone to work to improve their subsistence situation, had married under a set of provisions which had prevailed for decades; and now their economic lives were disrupted. This included 13,500 individuals. Not only did they lose AFDC payments, they also lost Medicaid, and some could no longer receive food stamps. Some lost eligibility for subsidized child care and other benefits. This happened to them during a time when unemployment was rising and recession was deepening.

This study set out to see how these Georgia families coped with this calamity. The focus was on those where the work effort of the AFDC mother now made the family ineligible. We eliminated from our universe all those cases closed for the reason of stepfather income, but these should be the subject of a further study as to the impact on those marriages.

The aim was to interview a sample of 300 families. Provision was made to include urban and rural cases from several different regions of the state. Case records were also reviewed. In every instance, state and local welfare department personnel were cooperative and helpful.

In every exercise of this type, however, unanticipated difficulties occur. Some families could not be located or, for one reason or another, could not be interviewed. In spite of the Department's and the study staff's best effort, it was found that the sample included some cases which did not meet the stipulated criteria as to the reason for termination. To make a long story short, of the 266 families interviewed, only 209 were terminated due to the newly enacted income limitations. The final sample, however, is still in excess of 10 percent of the total universe, and the lengthy interview process has resulted in a mountain of rich data. Analysis has only just begun, and what is reported here are simply highlights apparent from the initial sifting of the data.

How have they managed? (Interviews took place 12 to 18 months after termination):

The data give a clear impression that the rule changes and the subsequent terminations made life tougher for people who were already at the ragged edge. As indicated earlier, 70 percent of the sample did not rise above the poverty level even when earnings, AFDC, and food allotments were calculated together. Median monthly resources for the sample dropped $41 per month after termination, and many families slid back below the poverty level, some drastically so. At the time of our interview, 79% of the families had resources below the poverty level. These figures would change if a value for Medicaid was imputed, but Medicaid is available only if needed or utilized.

To replace the lost income, 20 percent asked the children's fathers for more support, but the average child support received by the sample totaled only $210 per year. Fifty-five percent increased their hours of work; 9% took an additional job. Two-thirds expressed a desire for more work, even in the low wage jobs they held, e.g., housekeepers in homes and hotels, nurses' aides, waitresses, food workers, cashier/clerks, teacher aids, shrimp cleaners, clothes pressers, etc. On their current or most recent job, 60 percent earned less than $4.00/hour and 20 percent earned less than $3.00/hour. Only 13 percent earned more than $5.00 per hour.

Seventy percent worked over 30 hours per week and 43 percent worked 40 or more hours per week. Ten percent had to travel more than 1 hour each way to work.

At the time of our interview, about 62 percent of our sample was still working. Given their small net gain, it is a tribute to their devotion to the Puritan ethic that so many continue to work. If you take a family of a mother and two children, assume the reported average earnings of $480 per month, and add $160 per month for food stamps, you total $640 per month or $7,688 per year in resources. By comparison, a nonworking AFDC mother of two can receive $202 per month in cash and $199 in food stamps for $401 each month or $4,812 per year. If you assign a value of $870 per year for Medicaid coverage (only 50 percent of what is the average for three such persons who utilize Medicaid), the nonworking mother has total resources of $5,682 per year. The difference between the two families is $2,006 per year or $167 per month. Deducting $120 per month as the average reported by the working mothers for work and child care expense, the difference narrows to $47 per month. If this is reasonably accurate, the working mother puts in 133 hours for a net gain of $47/month ($11.75/week) or $.35 for each hour worked. This excludes any consideration for uncovered medical expense on the part of the working mother.

Of the jobs held by the group at the time of the interviews, 70% were considered steady or regular, but 50 percent made no provision for overtime pay and 30% were seasonal or based on irregular hours. Only 43 percent provided for health insurance and paid sick leave; less than 1/3 offered life insurance and retirement benefits; and about 2/3 offered occasional leave with pay.

Household income was supplemented from many sources in addition to wages and food stamps. Children worked in 11 percent of the sample families. There were other adults (almost always females) in 1/2 the households and 70 percent of these adults contributed to the household income.

There were boarders, arrangements to care for other people's children, social security checks, and unemployment insurance payments. No one reported receiving alimony, and, as stated earlier, child support payments averaged only $210 per year. Two-thirds of the mothers reported their children continued to receive free school lunches. Twenty-two percent collected and turned in old bottles and cans.

Fifty-six percent received earned income tax credits (EITC), but one-third of the sample did not know how to apply for EITC. Although 80% filed income tax returns for 1981, only 20 percent claimed credit for child care costs.

Less than 1/3 of the study sample received low income emergency assistance (LIEA) to help pay utility costs. LIEA has focused outreach on the elderly and reaches only 1 in 5 of potential AFDC eligibles.

Finally, life circumstances had forced 38 percent of our sample to return to AFDC, and their average grant was now $164 per month which was more than double what it had been at termination.

What problems did they have?

One-third had, at some point during the previous year, run completely out of food and had to borrow, eat with friends or relatives, or postpone other obligations in order to feed themselves. As is known to those who work with the desperately poor, food is a flexible budget item. you have to pay your rent, utilities, or installment loans, but you can eat less or eat cheaper. Ways to stretch food budgets included the use of coupons (40 percent), securing food from others (25 percent), getting old produce from the grocery (26 percent), raising a garden (13 percent), and obtaining food through the WIC program (13 percent).

One-third reported rent increases since terminations; and 14 percent had relocated, mostly by moving in with others, usually their parents. One-half lived in projects or subsidized private housing, and their average rent was $105 per month. Fifteen percent shared the rent with someone else.

Eighty percent had run completely out of money at one time or another, and 38 percent had bills more than two months overdue. Twenty-seven percent had no telephone, and 13 percent had experienced having their utilities cut off during the time since termination.

Forty-four of the mothers had to make new child care arrangement, including for some taking a child to work or leaving an older child alone. Sixty percent resorted to charitable organizations, family hand-me-downs, and garage sales to obtain clothes.

One-half reported episodes of illness, anxiety or depression, and out-of-pocket medical expenses averaged $377 for 1982. One mother whom I personally interviewed deliberately overdosed on sleeping pills during a particularly stressful period.

What do these data teach us?

They are one more episode in the continuing dabate: How much should we help the working poor?—those who have the potential capacity to help themselves?

The data do not resolve the question for us, for it is largely a subjective value judgment, a matter of opinion.

We do see again, if we had not before, that these families live a very precarious existence. They frequently do not have enough subsistence resources to fill their most fundamental needs for food and shelter. This is true, in spite of their general devotion to work and a persistent but uneven connection to the low-wage job market.

Over the past 12 to 18 months since their termination from the AFDC program due to these 1981 changes, 9 percent more of them were in poverty as measured against their available cash and food stamps. The number below ¾ of the poverty level increased by 14 percent. More were poor and more were very poor.

We know that this group of 209 is reflective of 1,800 families in Georgia and millions more throughout the country. The number of female-headed families in the nation is approaching 6 million. They contain 13 million children; and over one-half, 6.7 million, of the children live in poverty. For black children under 6 in female-headed families, the national poverty rate is 75 percent. The figure for this region is probably higher.

What should be our policy?

Even if we assume that we want these mothers to follow the general movement of women into the labor force, do we want them and their children to have all their physical and mental energies consumed in a daily fight for mere survival? We know something about the high cost of meeting the physical and social needs of children in modern society. Would it not be a wise investment to supplement these families in a sufficient amount so that there will be some energy (and some hope) for self-development and growth. Is that not in their and our own best interest?

Chairman FORD. Maybe the State welfare director for the State of Connecticut, Miss Nakashian, would let us raise a question. I know the other two witnesses have to leave because of flight arrangements.

I would like to pose one question to the two of you. Briefly in what ways does your research confirm the work done by GAO? You have talked about and given us some, Mr. Parham, some recommendations as to what we ought to be looking at in this Congress from a legislative perspective. Does your research, the two of you, suggest any legislative recommendations that the Congress should pursue as it relates to the research you all have conducted?

Mr. PARHAM. I think the thing you are suggesting in the work transition arrangements in your bill is an excellent beginning. If we are going to only be able to take small incremental steps, which is apparently the situation we have economically; it seems to me very logical to try to do that. That would certainly give us some reasonable approach to dealing with these million children we keep talking about. It is odd that administration people just keep sitting here, almost as if they are blind to the fact those children are out there. All these studies have documented it time and again. How many times do we have to say it? How many times do we have to prove it?

Chairman FORD. What about your research? Has it confirmed the work done by the GAO?

Mr. PARHAM. It was like a quote. The kind of thing they described as to the living conditions and quality of life conditions these folks described were exactly what we found in Georgia. Practically the same thing. As I said, it was almost like a quote from my own report.

Chairman **Ford**. Mr. Moscovice?

Mr. **Moscovice**. I would suggest, given all the studies done in Georgia, Minnesota, Wisconsin, the five GAO States and the RTI studies from the year prior to this, that we can conclude that in almost all States, except Georgia, that these people haven't gone back on welfare amd don't want to go back on.

Mr. **Parham**. I think the Georgia findings are somewhat similar to the Memphis and Dallas situation as cited in the GAO report.

Mr. **Moscovice**. It sounds like in the South we might have more movement towards going back on welfare than in other States.

Mr. **Parham**. Because of poorer jobs.

Mr. **Moscovice**. In States with at least a reasonable economy, people are not going back on. I think the No.1 problem is health insurance. I would be willing to debate anybody from the administration who suggests it is not a problem. I disagree with those who suggest that the States are able to provide health insurance coverage for this group. It isn't happening. If it is not happening in Minnesota, I would suggest it is not happening in virtually any other State in this country. We have some of the most complete health insurance programs available, both in the public and private sector.

I think the work transition steps that are recommended in the legislation are good ones, but they are initial steps. I think the real issue is for people earning anywhere from $7,000 up to even $15,000 a year who don't have health insurance coverage, is the Federal Government going to take the responsibility for assuring health insurance coverage or at least share some of the risk with those people? Give these people an opportunity to buy health insurance coverage they need for preventive care and primary care. Don't leave them in the cold with respect to having to figure out what to do when a problem occurs. You can do that in a variety of ways.

There is a bill, the Child Health Assurance Program, that has been debated back and forth in the Congress I have a memo from APHA saying it will be debated again and that we should try to bombard our representatives with letters and calls urging them to vote for CHAP. A second way is to aviod cutting funds for the MCH block grants. You have to be concerned about the domino effect. Many benefits got cut for a lot of these people. Food stamps, MCH services available through block grants, all the rest. They have all been cut. It is a roller coaster that may not stop.

A lot of these families can manage and will stay off welfare and will tend to improve their work opportunities, but they need health care coverage. There are a variety of ways to do that. I believe in the long-term something has to be worked out for the people who are working in jobs that pay $4 or $5 an hour that don't provide health care coverage.

Chairman **Ford**. So your research does confirm also the work done by GAO; is that correct?

Mr. **Moscovice**. Absolutely.

Chairman **Ford**. Mr. Campbell.

Mr. **Campbell**. Thank you.

I think that you probably gather from earlier questions by this committee that we are concerned about the transition period and the method health care of coverage. Your research, obviously, also confirms—and I say this again; you did say it—that this did not act as a work disincentive to make these changes; that, in fact, people did increase their income, did increase their effort. So the problem may be in the transition of some sort, and the health care coverage seems to be the major area of concern in the transition for those that are moving back into the work force.

Is that a correct statement?

Mr. MOSCOVICE. They increased their earned income.

Mr. CAMPBELL. That is what I am——

Mr. MOSCOVICE. I believe you said increased their income.

Mr. CAMPBELL. Excuse me; their earned income?

Mr. MOSCOVICE. They increased their earned income. And I think the transition issue relates more to the work side than the health insurance side. You are going to have people, in the South, in Minnesota and in other States, who are in low-paying jobs that don't provide health insurance. If you work for McDonald's, you are not going to get health insurance coverage. A lot of people in our study are employed as waitresses and don't have health insurance coverage. And the simple fact is, if they do have it, it is pretty poor coverage.

So it is not necessarily a transition issue with respect to health insurance. I think it is more of a long-term issue in terms of what are we going to do for people in low-paying jobs without insurance coverage.

I think extending Medicaid coverage will help for that 4- or 9-month period that the bill suggests now.

Mr. CAMPBELL. I happen to think the 4 months is too short. I think it has to be a longer period of transition there. But I think it is a transition. I don't think we can keep them on Medicaid forever.

Mr. MOSCOVICE. I agree.

Mr. CAMPBELL. I think you have to have some other method of moving into it.

But I just wanted to make sure that we all agreed that we have a problem with the medical insurance in transition, and that the OBRA changes did not cause people to drop out of the work force. Rather, it seems to have strengthened them somewhat.

Mr. MOSCOVICE. That is true.

Mr. PARHAM. Let me just add, what happened in our area was it made people's lives, lives that were very precarious, very limited—it made them more precarious and more limited. I mean, it is not a matter—they are not going to transit, this particular group, to something that is adequate.

Unless our economy in our region changes marvelously, these folks are going to be among a needy group, especially in regard to health care, for a long time.

Mr. CAMPBELL. I would agree with you that earnings in different areas are different. Different industries have higher wages. Different areas have lower costs of living.

Mr. PARHAM. Sure.

Mr. Campbell. I used to be the executive assistant to the Governor and handle most of the health and social programs in the State of South Carolina, and I am pretty familiar with them, and I understand some of the problems and all. But I also understand that sometimes we overdo, and sometimes when we try to correct something we throw the baby out with the bath water, and we have to back up a little bit.

But I do believe that your work incentive programs—and my concern I expressed earlier was that by not doing something with the health side of it, we were literally providing a disincentive to going back to work, and we wanted to remove that, or I want to remove it. I don't know who else wanted to remove it. I know the chairman wants to remove it.

But I also very strongly look upon these programs as temporary. And I have looked at the average length of time of the people that have been on them in the GAO study, by the various regions, and they were rather lengthy, and somehow, some way, there has to be a constant encouragement to move off. And I have seen that before, and you have, too. And you know and I know that there are people that do work—not the majority of these people; most of them would just almost give their left arm to get a good job, to go out and work all the time and not have to depend on anything—but there are people that do work in the underground economy that work for cash payment and everything else. I have seen them and you have seen them. We understand that.

We have to provide disincentives for that and incentives to move into the economy, and I think that that is what we are searching for and trying to not let people drop through the cracks in the transition.

Mr. Parham. I really have to go. But with regard to the underground economy, the great bulk of what we are going to find, I think, if we ever do get the answer, you certainly are right—we are going to find that the great bulk of what we lose in the underground economy is from folks who are much higher on the economic scale than this particular group, in my opinion.

Mr. Campbell. I concur with you totally. I don't want you to miss your plane, but I concur with you totally that your dollar figures are at a different level totally. But it exists.

Mr. Parham. Certainly. Poor people are no more or less honest than the rest of us.

Mr. Campbell. Absolutely. And I didn't mean to infer that they were. And this administration is no more or less heartless than others, because it has compassion for people that work and pay taxes, and doesn't apply that compassion discriminatorily just to one group. I think we have to look to all groups.

Mr. Parham. I hope you are right.

Mr. Campbell. All goods.

Mr. Parham. Goodbye.

Chairman Ford. The Chair would like to thank the State welfare department director of Connecticut, Mrs. Nakashian, for waiting. We certainly appreciate it.

Now the Chair will recognize you at this time.

STATEMENT OF MARY R. NAKASHIAN, DEPUTY COMMISSIONER, DEPARTMENT OF INCOME MAINTENANCE, STATE OF CONNECTICUT

Mrs. NAKASHIAN. Thank you.

My name is Mary Nakashian, deputy commissioner for the department of income maintenance. We are the State agency that administers AFDC, food stamps, and Medicaid in Connecticut.

I have some written testimony which I would like to submit for the record.

Chairman FORD. Your written testimony will be made a part of the record.

Mrs. NAKASHIAN. I think what I will do here is just highlight from it and try not to repeat what other States and representatives have said.

Chairman FORD. That will be fine.

Mrs. NAKASHIAN. Connecticut did not do a formal study on the effects of our recipients after OBRA. What I would like to do is share some of the experiences that I have had as a welfare administrator over the past few years.

I have been deputy commissioner of the department since February 1983. Prior to that time, I spent many years as a line worker in the field taking applications for various welfare programs, and then supervising others who did so. So I have ample experience and opportunities to see firsthand what has happened in the past few years in Connecticut.

I believe that the GAO study demonstrates clearly that social justice and economic opportunity are not available to many people. I think that the policy changes passed as part of the reconciliation are, in fact, aimed only at reducing the budget and not at significantly addressing broader policy issues.

I think that while poverty in America is as pervasive as it was 20 years ago, we have an administration which believes that poverty is not a national issue, and therefore the Federal resources should not be spent on poor people. I think that that approach ignores the roots of poverty, which are national, and which are far beyond any State's individual ability to change.

I think that the rhetoric of the administration promised that the truly needy would not be hurt by cuts in social programs. In 1981, the administration pressed forward to reduce Federal spending by ridding the welfare rolls of the nonneedy people. I agree with the administration that the benefits should be available to people in need and that nonneedy people should not be eligible. All States believe that.

Who were the welfare families whose cases were closed? The GAO study requested by the Ways and Means Committee gives us some answers. And my own experience gives us some more answers.

My personal experience and the experience of Connecticut is basically consistent with that found in the GAO study. Working AFDC households were the most affected by the OBRA reductions and were disproportionately affected.

At the same time, it seems we have gotten in a position where we encourage recipients to work. The work provisions that have passed in the past few years are very strict in terms of what we do to require clients to work, and then the minute they get a job the punishments that are applied to them for starting employment are increased substantially.

The GAO study told us that some 493,000 families nationwide no longer had AFDC money. In Connecticut, in 1 day, we discontinued 2,800 cases on October 1, 1981, during the first phase of OBRA implementation. These are working families, families in which for the most part there was one adult, and that adult was the wage earner; that adult was the parent; that adult was the homemaker.

Is this the type of family which is nonneedy? Is this the type of person who is not deserving of help from our society?

The October 1 change was dramatic. It was complete and it was immediate. There was not a transition period for these people. One day they were on assistance and Medicaid, and the next day they were off. That was the 2,800 cases terminated on October 1. One thousand more cases were terminated 4 months later, with the end of the 4-month disregard.

In addition to those 1,000 and the 2,000 cases, about 4,400 cases had reduced benefits. When you add in the cases discontinued a few months later due to the step provision, 2,000 more Connecticut households lost AFDC benefits.

The GAO study tells us that the cases lost anywhere from $71 per month to $156 or $198 per month. In Connecticut, our finding was similar. The average loss per case was $115 per month. I think that by anybody's concept, these losses are significant, particularly if you are a single working mother with a child or with children.

I think the administration would say that these families are able to make it on their own, and are therefore not truly needy, and that scarce economic resources should not be allocated to these families. On the contrary, I think that these families are most in need of special support from us, as they are trying and have done a lot to help themselves and they are looking for a little support from the society to help them make that complete break on to true and ultimate self-sufficiency.

What do the GAO findings tell us about these people's abilities to provide for themselves? They tell us that most families do not quit their jobs and go back to welfare. The experience in Connecticut was similar, and I hope that that helps put to bed a myth that welfare mothers are lazy and do not want to work. That has not been our experience, and that has not been the experience that any of the States have found.

The American work ethic is undeniably strong in these families, and I think that the fact that people are not quitting jobs and returning to welfare is a testament to their ability and to their motivation to remain in the work force, despite some very powerful changes and incentives to do otherwise.

I think the GAO study also reveals several other realities that exist in the world of the former welfare recipient. Reality for many of these families meant a total loss of Medicaid benefits in addition to AFDC.

The administration maintains that there is a medically needy program to pick up recipients. Connecticut has always had a medically needy program. The medically needy program will not address the loss of Medicaid benefits.

What my colleague from Minnesota said is absolutely true, and it is true in Connecticut: The medically needy program is geared for people with special catastrophic kinds of illnesses. And the limits under which you qualify for the medically needy program in Connecticut, which is by most accounts a more liberal State, are so close to the AFDC limits that if you are going to be over the limit for AFDC, you are going to be hard-pressed to be eligible under the medically needy program unless you have some extraordinary medical situation.

Connecticut also has a general assistance program, which in our State is funded jointly by the State and each locality. I cannot conceive of a situation in which anybody who lost AFDC due to earnings would qualify for general assistance. I don't have a hard number, but I am comfortable saying that nobody who lost AFDC benefits due to OBRA is receiving general assistance. So the reality for these people was losing medical and dental care, or being refused necessarily for themselves or their children.

It is true that, as the GAO found, people have increased their ability to generate earnings. But this increased earning has not offset loss in the Medicaid and AFDC benefits that they suffered. Despite all this, they continue to work, and I think it is to their credit that they continue to do so.

Since I became deputy commissioner a year ago, our department has sponsored some forums, or public hearings, to which we invited recipients and the general public to come and share their opinions and concerns and issues about the Connecticut welfare benefit programs. We have heard some very personal and compelling testimony from several hundred recipients who came out.

These forums were very powerful. They were not organized in the sense that people were not bused in. Individuals came to share their own personal concerns. One woman with a 3-year-old child said:

> The last time I was working, my benefits were cut. I pay $225 for rent, $30 for gas, $5 for transportation, $40 for laundry and other expenses. If I got a job for $200 a week, I would have to pay $40 for taxes, $55 for day care. I would bring home $105 a week. When there was a work incentive, it was worth it for me to continue.

She pointed out that if she worked at these wages, she would lose her benefits and her Medicaid coverage. Clients simply cannot understand why the same staff who encourages them to get a job and helps them find a job then terminates all of their benefits when they do what they have been encouraged to do, and as staff and as administrators we find it very difficult to explain that to them.

Another man testified that he had been on welfare for 2 years and wished to learn a new skill to improve his employability in the open market. He did so, got a job, and was cut off from all benefits.

Another woman said that working mothers never have enough money to pay for rent, for clothing, for food and for utilities, and asked why we used the gross income rather than the take-home pay when we compute the amount of an AFDC check. I think that that is a very legitimate question, and I find myself hard pressed to justify an arbitrary $75 deduction for work expenses, when my own logic tells me that when you have taxes and medical insurance provided through your employer, often mandatory retirement deductions, mandatory union dues, that $75 is simply not enough. I find myself unable to justify that to recipients.

I guess a third woman, who had maybe the best perspective, said: "Why do we get punished for working? I could make it on my own if I could only get medical coverage."

It was difficult and painful, as administrators, to see that these people wanted to work, how much they needed a little help from us, and how we were unable to provide that help. My personal experience as an Intake worker gives me a very firm conviction that people do not want to go through what you have to go through to get on welfare, unless you have absolutely no other alternative. I was one of the people out there asking the questions and determining their eligibility, and it is not a pleasant process.

States are not sitting back and merely asking what the Federal Government is going to do to help us more. In Connecticut and in many other States, we have done what we could to help fill in the gaps and help meet our own needs. In Connecticut, we have picked up on just about all of the options that the Federal Government allows us to. We continue to fund it entirely with State funds, some of the 18- to 21-year-old students who were terminated under OBRA, and we now do fund those people with just State money.

We have taken several actions to implement stronger and more productive work programs for recipients, so that we meet day care needs and emotional needs and training needs and literacy needs and really working toward seeing that there is a permanent unsubsidized job out there.

Several of the programs that the administration mentioned in their testimony are things that we either have implemented or are in the process of implementing. The job search program has some merit, and, well done, it can work. Grant diversion is something that we are working with right now, and we will be beginning over the next few months.

We have been very fortunate in having Representative Kennelly from our State who has done a lot to beef up the child support laws so that we can try to reduce dependency by ensuring rigorous enforcement of child support obligations. Our own legislature is struggling with what the State can do to provide medical coverage with State funds for low income people.

States are not sitting back and doing nothing about the problem. We are trying to do what we can. But we feel that many of these issues are much more than single State issues.

I am also pleased to see some of the provisions of the Reconciliation Act that came out of this committee, and has passed the House. And I would encourage things like extending the $75 work expense to part-time employment as well as full-time employment. I would encourage increasing that amount.

Chairman FORD. Pardon me.

The legislation that we reported out, or at least a part of it—since you have already talked about it and you are getting into the congressional part of it here in Congress, I also want you to address should the Congress take steps in this session of the Congress to correct some of the problems that have been identified by the GAO report as well as what kinds of legislative changes should be made outside of just that you are going to mention now that we have already included in a bill that is going to conference hopefully next week.

Mrs. NAKASHIAN. I will just mention the two others that are here, which is to remove part of the 4-month limitation on the incentive, by crediting a work transition, so that people have a less abrupt termination from benefits. I think that other things that should be done are—I agree again with the man from Minnesota—that some broader discussion of medical coverage has to be addressed. And I think that has to be addressed soon. I agree that it is not simply a transition issue, so I would say that is a high priority.

I would say I think that the 4-month limitation on the work incentive is much too short, and I think that that is something that could be changed. I think people call it a disregard, but it is truly a work incentive. And what has happened is that after 4 months, that work incentive, or the incentive to work, is simply not there. I think that whereas before it was sort of unlimited, and as your salary got up, the incentive changed and you eventually worked yourself off, if it has to be an arbitrary limit I think the 4 months is much too short.

These people are single parents. Their children have many problems when the mother goes to work, school problems or family problems. The mother has to sort out day care and make arrangements. These things take time. Four months is not enough time. So I would say at least a year in terms of a transition. That would be something I would like to see Congress do now.

Increasing the $75, I think, is another one. There is no logic. I computed the minimum amount of money just based on the State of Connecticut's mandatory deductions, and it was well over $100, a few years ago. So I think that a realistic look at a reasonable work expense that is related to what clients are experiencing is another very concrete thing that could be done now, which are not very radical but I think they are very important.

I think also that the welfare system needs to be addressed in a lot of broad areas, and I guess in a sense I am agreeing with the administration in that there were inequities that needed to be corrected, but I depart from them at that point. I think that more so the problem of poverty has to be looked at as a national issue. I think with mass technology and mass communication, lines between States get more and more blurred, and what happens in one State has an impact on another State. And you can't make those artificial distinctions. So I think that should be the philosophy behind social policy changes.

I think that there should be reasonable minimum welfare benefits set by Congress. This is not related to working people, but reasonable minimum benefits that disparities across State lines far exceed differences in cost of living, and I think that creates inequitable situations.

I think that all States should be required to run an unemployed parent program. Connecticut is one of 23 States that do run an unemployed parent program. I think that this contributes to the stability of families and households.

I think that programs should be simplified and that the administrative bureaucracy should be minimal, and that the inconsistencies across program lines should be minimized, and some of the provisions of the Reconciliation Act do that.

I think that the welfare system has to provide incentives for work, has to allow families to explore the world of employment, and establish a bond with the workplace, and it has to provide them with support while they do that.

I think that we, as a society, have to make eliminating poverty one of our highest priorities. Meeting the needs of the poor and reforming our system are big jobs, but, as Thomas Jefferson once wrote: The care of human life and happiness is the first and only legitimate objective of good government.

I thank you very much for your time and patience.

[The prepared statement follows:]

STATEMENT OF MARY R. NAKASHIAN, DEPUTY COMMISSIONER, DEPARTMENT OF INCOME MAINTENANCE, STATE OF CONNECTICUT

I'm here today on a very serious note—to talk about the GAO study of OBRA effects on the AFDC program from a state welfare administrator's perspective.

You've all just heard a lot of statistics from that GAO study—and the implications of those statistics are very disturbing.

Statistics, however, can be quite dry, and the recitation of too many can perhaps leave out another, more crucial, element.

So I'm very glad to have this opportunity today to discuss with you the implications of the GAO study and to share with you some of my personal—and painful—observations about poverty since the implementation of the Omnibus Budget Reconciliation Act of 1981.

I've been Deputy Commissioner of the Connecticut Department of Income Maintenance since February 1983.

And although most of the program changes and cuts in AFDC occurred before I became Deputy Commissioner, I've had nearly ten years experience as a front line welfare worker and administrator, so I have had ample opportunity to see first hand the results of the Reagan offensive against the poor.

I believe that poverty is the most critical issue facing our country today—except perhaps the threat of nuclear annihilation.

While the arms race threatens the survival of mankind, poverty threatens the very foundations of our nation's democratic values.

The truly defenseless in this country cannot be defended by nuclear warheads, but only by social justice and economic opportunity.

Without social justice and economic opportunity, many of our citizens are denied access to the President's so-called economic recovery.

Without social justice and economic opportunity, the American dream becomes the American nightmare for many of our citizens.

But I believe that the GAO study demonstrates clearly that social justice and economic opportunity are clearly not available to many Americans.

While poverty in America is as pervasive and insidious as it was 20 years ago, we have an administration in Washington which believes that poverty is not a national issue, and therefore federal resources should not be spent on the poor.

This approach totally ignores the roots of poverty which are national in scope, and far beyond any individual state's ability to change.

Rather than attacking the roots of poverty, the Reagan administration attacked the War on Poverty, and in doing so, attacked the most vulnerable groups in our society.

Indeed, recent statements by members of the administration even try to have us believe that the poor are not really so poor, after all.

The rhetoric of the administration promised that the "truly needy" would not be hurt by cuts in social programs, and that the safety net would still protect those persons deserving of our help.

And in 1981, the administration pressed forward in its campaign to reduce federal spending by ridding the welfare rolls of the "unneedy."

When the dust settled, the result was the Omnibus Budget Reconciliation Act of 1981.

And just how did OBRA rid the rolls of the "unneedy?"

Who were the AFDC families whose cases were closed because they were not needy, and what became of them?

The GAO study requested by the Ways and Means Committee gives us some answers.

My experience as Deputy Commissioner of Connecticut Income Maintenance gives even more.

Working AFDC households were the most affected by OBRA reductions in AFDC—disproportionately so.

The GAO study tells us that some 493,000 families nationwide no longer had AFDC money coming into their households.

My experience tells me that over 2,800 Connecticut families were forced off AFDC altogether in October 1981, during the first part of our implementation of OBRA. These are working families, families in which one adult served, at the same time, as wage earner, parent, homemaker. Is this the type of family which is non-needy, which is not deserving of some support from our society.

1,000 more Connecticut families were forced off AFDC in February, 1982 when they reached the four month limit on the work incentive disregards.

The GAO study tells us that thousands of families nationwide saw reductions in their AFDC checks.

In Connecticut, in addition to those cases listed above, some 4,430 cases were reduced because of the changes in the earnings formula.

When you add in the cases discontinued because of the stepparent income provisions, yet another 2,000 Connecticut households lost AFDC.

The GAO study tells us that AFDC cases which were closed lost an average of $71 per month in some southern areas, and in northern areas, the monthly benefit loss was as much as $156 to $198 per month.

In Connecticut, the average loss per case was $115.00.

These losses are surely significant, particularly if you are a working AFDC mother with a child—a child who needs clothes, shoes, and perhaps things for school.

The Reagan administration would say that these families are able to make it on their own and are not truly needy. Scarce economic resources should not be allocated to these families, we are told.

After all, they do work; they have a work history, something non-working AFDC mothers do not have.

What do the GAO findings tell us about their ability to provide for themselves and their families?

Many of the cases studied by the GAO were able to increase their average monthly earnings after being discontinued from AFDC.

And most AFDC working mothers did not quit their jobs to go back on welfare. Only 7 to 18 percent returned to AFDC rolls a year later.

This fact should put to bed a prevalent welfare myth that AFDC mothers are lazy and do not want to work.

The American work ethic is undeniably strong in these families. That work ethic is surviving despite enormous obstacles.

Some might conclude that the Reagan administration was justified in removing these families from AFDC.

But the GAO study also shows us a different reality—one that does not surprise me, and probably does not surprise many other state welfare administrators.

Reality for many of these families meant a loss of Medicaid benefits in addition to loss of AFDC. At the time of the GAO interview, only 13 to 31 percent were covered by Medicaid. And in some areas of the country, employer paid health insurance was a luxury enjoyed by few.

Reality was foregoing medical and dental care—or being refused necessary medical care—for themselves or their children.

Between 14 and 24 percent had not sought medical care because of their inability to pay; 8 to 13 percent had been refused medical or dental care because of their inability to pay.

Many of these families reported a greater incidence of hardship at the time of the interview than two years ago, before losing AFDC.

And lastly, reality was that although many families increased their earnings, it was not enough to make up for the loss of their AFDC and Food Stamp benefits.

And yet, despite all this, these families continued to work.

For these working AFDC mothers, OBRA was a cruel comment on their willingness to work, played by an administration more interested in reducing federal spending than in helping AFDC families gain self sufficiency and a share in the benefits of American society.

It has certainly been my experience that working Connecticut families formerly on AFDC are facing extreme hardship, and have been pushed further into poverty, despite their efforts to improve their lives.

And it has also been my experience that welfare mothers want to work and have been discouraged by the removal of the work incentives.

Since I became Deputy Commissioner, our Department has sponsored public hearings on our programs. Many of our clients came to these hearings to tell us about their concerns about AFDC, and their difficulties in caring for their families while working.

One woman with a three year old child at her knees said, "The last time I was working my benefits were cut. I pay out per month $225 for rent, $30 for gas, $5 for transportation, $40 for laundry costs and other expenses. I can't buy new clothes. I could perhaps work for $200 a week; after $40 is taken out for taxes and $55 for day care, I would bring $105. When there was the work incentive program, it was worth it for me to work." She pointed out that if she worked at those wages, she would have no medical coverage.

A man testified that he had been on welfare for two years. He signed up for school, hoping to improve his ability to support his household, but was then cut off from welfare and Food Stamps.

Another woman said that working mothers never have enough money to pay for rent, clothing, food and utilities, and she asked me why we used gross income instead of take home pay when computing an AFDC check. How can I justify an arbitrary $75 deduction for work expenses, when logic and common sense tell me this amount is simply inadequated?

And a third woman said, "Why do we get punished for working? I could make it on my own if I could get medical coverage from the state."

It was difficult and painful to see how much these people wanted to work, and how much they wanted a little help to make it on their own.

My experience as a worker and as an administrator leave me with no doubt that AFDC recipients want to work. And I have no doubt that OBRA has added to the many obstacles faced by these women as they try to support themselves.

Connecticut is working toward improving the employability of AFDC mothers and maximizing their opportunities for employment.

State legislation passed last year brought together numerous State agencies to work together to find new ways to give AFDC mothers the opportunity to work and gain self-sufficiency.

We are also pursuing legislation authorizing two demonstration work-preparation and supportive-work programs for AFDC recipients. This legislation will enable AFDC mothers to be placed in private sector employment, and will include the use of grant diversion to defray part of the participating recipient's wages.

And the Connecticut legislature has been struggling this session with the problem of providing medical benefits to working mothers who lose Medicaid as well as AFDC benefits when their earnings or the loss of their work incentive disregards make them ineligible.

Connecticut is not alone in these attempts.

And as a State welfare administrator, I'm very pleased to see efforts in Congress to ameliorate the cruel effects of OBRA for working AFDC families.

H.R. 5394, sponsored by this committee, contains a number of provisions which will not only simplify AFDC administration for States, but will also help AFDC mothers in their efforts to support themselves and their children.

The most important sections of this legislation, I believe, are the provisions designed to assure working AFDC mothers of continued health coverage by: extending the $75 work expense disregard for full-time workers to part-time workers; partly removing the OBRA 4-month limitation on the incentive earnings disregards; and by creating a work transition status for AFDC mothers who lose AFDC benefits because of the loss of the work incentive disregards.

These provisions will go a long way in redressing the negative effects of OBRA for working welfare families.

But I believe we must go even further.

Clearly the American welfare system is in serious need of reform.

As I conclude my remarks, I'd like to share with you some of my thoughts as a State welfare administrator about critical elements of a fair, sound, just welfare system.

Welfare must be viewed as a national responsibility. As I said earlier, poverty and its causes are in many ways due to national problems which cross State lines. This is even more so as mass technology and mass communication blur geographical boundaries and lead us to interdependence. We cannot be deceived into thinking that individual States can affect the causes of poverty, anymore than individual States can affect other national economic problems.

Reasonable minimum benefit levels should be set by Congress, with continued Federal and State partnership in financing and administration. The disparities among benefits available are inequitable in that they far exceed differences in any way attributable to either of living or human need.

Poor families should not be penalized if there are two parents in the household. When a State's welfare benefits are available only to families with one parent, the State is contributing to family instability and breakup. Connecticut is one of 23 States with an AFDC-unemployed parent program. All States should be required to operate this program.

Programs must be simplified, bureaucracy reduced, and clients must be treated with dignity. H.R. 5394 with its provisions to promote compatibility between AFDC & Food Stamp income guidelines, to temporarily postpone payment of AFDC fiscal sanctions, and to make MR/RB optional in AFDC will help us reach those goals.

And lastly, we must recognize that the only real, long-term answer to poverty is employment.

The welfare system must provide incentives for work, allowing families to add earnings to welfare benefits for long enough for the worker to establish a bond with the work place. And the system must enable AFDC families to retain health care benefits through Medicaid.

To force a recipient who is willing to work off AFDC and below the poverty level is cruel and indefensable.

Employment and training programs must be specifically designed to meet the particular needs of welfare recipients—and that means an emphasis on basic skills, adequate support services such as day care, and special efforts at work readiness.

Provisions of H.R. 5394 will also help meet these needs.

We, as a society, must make the issue of eliminating poverty a priority.

Meeting the needs of the poor and reforming our social welfare system are big jobs.

But as Thomas Jefferson once wrote, "The care of human life and happiness is the first and only legitimate object of good government."

Thank you very much.

Chairman FORD. Thank you very much.

As director of the State welfare department in the State of Connecticut—the GAO study found that many families faced more crises after losing their AFDC eligibility—would you say that this is true in the State of Connecticut?

Mrs. NAKASHIAN. Yes. I don't have a lot of numbers, but I can say we have run into some crises with our private food banks. We have an Emergency Housing Program which deals with, among other things, people who have been evicted. And the expenditures under that program have grown—personal testimony about hardships, people moving more often because they can't keep up with their bills, things that are very bad in the long term for people.

Chairman FORD. I guess you have been in the witness room, the committee room, all morning, and you have heard the administration, I guess, criticize the GAO findings on lack of health care.

As the welfare director for the State of Connecticut, is loss of Medicaid coverage a significant problem in the State of Connecticut for low-income families who have lost AFDC in your State?

Mrs. NAKASHIAN. I believe that it is.

In the public hearings that we went through, time after time people said, "If I have to make it without the money, I can make it without the money. I am frightened without the medical care."

Two things seem to happen. First of all, the child has an illness and the medical benefits are not available. Or they are just terrified to be without them. They are afraid to get themselves into that situation. They are afraid to get a job, because if they know that they are going to lose their medical, they are afraid of what will happen then. They are very concerned about being able to meet expenses.

It has been our experience that many, many times providers will not see people unless they are assured of payment up front, and that is very, very difficult to get in to see a provider, if there is any indication that you are not going to be able to pay the bill. Most people who are working—many people who are working—are in jobs where there is no coverage, no health insurance coverage.

Chairman **Ford**. Do you agree with the administration when they testified today that even though we have noticed, and we see these cuts in the AFDC Program, that States like Connecticut and other States are going to be able to pick up the slack?

Mrs. **Nakashian**. No. I think that we have tried to pick it up where we can by some other programs that I mentioned. I think that all of the other programs that are there have also been cut. And the Federal participation in the Medicaid Program, for example, was cut basically by 3 percent at the same time as all of these AFDC cuts were made. So that it is hard for States to pick up entirely what is lost.

Chairman **Ford**. Thank you very much.

Mrs. **Nakashian**. Thank you.

Chairman **Ford**. The committee would like to thank you for testifying and responding to the questions today.

Mrs. **Nakashian**. Thank you.

Chairman **Ford**. That will conclude the witnesses for the Public Assistance Subcommittee today, the hearings on the GAO findings on the report on AFDC and Medicaid.

The Chair would like to announce that we have not scheduled any future session or meeting with the subcommittee because dates have not been released yet from the full committee. So, at this time, the chairman would like to close out and adjourn the subcommittee this afternoon.

Thank you very much.

The committee is adjourned.

[Whereupon, at 2:35 p.m., the hearing was adjourned.]

○